

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Bonds (as hereinafter defined) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of delivery of the Bonds. In the opinion of Bond Counsel, under existing laws, interest on the Bonds is exempt from income taxation in the State of Indiana for all purposes except for the Indiana financial institutions tax. See "TAX MATTERS" herein and Appendix C.

\$26,485,000
INDIANA BOND BANK
SPECIAL PROGRAM REFUNDING BONDS
(East Chicago Municipal Building Corporation Project), Series 2006 A

Dated: Date of Delivery**Due: February 1 and August 1, As Shown Below**

The Special Program Refunding Bonds (East Chicago Municipal Building Corporation Project), Series 2006 A (the "Bonds") are to be issued by the Indiana Bond Bank (the "Bond Bank"), pursuant to a Trust Indenture, dated as of May 1, 2006 (the "Indenture"), between the Bond Bank and Mercantile National Bank of Indiana, Hammond, Indiana, as trustee (the "Trustee"), will bear interest from the date of delivery of the Bonds at the rates per annum, and will mature on the dates and in the principal amounts set forth below. The Bonds will be issued only as fully registered Bonds in the denomination of \$5,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interest in the Bonds will be made in book-entry-only form. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. Interest on the Bonds is payable on February 1 and August 1, beginning August 1, 2006, and such interest, together with the principal of the Bonds, will be paid directly to DTC so long as the Bonds are held in book-entry-only form. The final disbursement of such payments to the Beneficial Owners of the Bonds will be the responsibility of the Direct Participants and the Indirect Participants, all as defined and more fully described herein. See "THE BONDS - Book-Entry-Only System."

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS -Optional Redemption and -Mandatory Sinking Fund Redemption Prior to Maturity."

The Bonds are authorized by resolutions adopted by the Board of Directors of the Bond Bank and are issued under and secured by the Indenture, all pursuant to the laws of the State of Indiana (the "State"), particularly Indiana Code Title 5, Article 1.5 (the "Act"), to refund the Bond Bank's Special Program Bonds, Series 2000A (City of East Chicago Facilities Building Corporation Project) which were issued for the purpose of providing funds to purchase the First Mortgage Bonds of the City of East Chicago Facilities Building Corporation (the "Original Qualified Entity") which is authorized under Indiana law to issue bonds and construct facilities for lease to the City of East Chicago, Indiana (the "City").

The Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture, as more fully described herein. The Bonds constitute a moral obligation of the State of Indiana (the "State") to the extent of the debt service reserve maintained by the Bond Bank for the Bonds. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof. The Bond Bank has no taxing power.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



The Bonds will mature on the dates and in the amounts as follows:

\$12,620,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Reoffering Price</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Reoffering Price</u>
8/1/06	\$855,000	4.000%	100.047	8/1/11	\$ 595,000	4.000%	100.601
2/1/07	500,000	4.000	100.164	2/1/12	610,000	4.000	100.247
8/1/07	510,000	4.000	100.283	8/1/12	620,000	4.000	100.267
2/1/08	520,000	4.000	100.401	2/1/13	635,000	4.000	99.704
8/1/08	530,000	4.000	100.516	8/1/13	645,000	4.000	99.686
2/1/09	540,000	4.000	100.629	2/1/14	660,000	4.000	98.951
8/1/09	550,000	4.000	100.740	8/1/14	670,000	4.250	100.614
2/1/10	565,000	4.000	100.609	2/1/15	690,000	4.250	100.000
8/1/10	575,000	4.000	100.686	8/1/15	700,000	4.250	100.000
2/1/11	585,000	4.000	100.548	2/1/24	1,065,000	5.125	104.557*

\$13,865,000 Term Bonds

\$1,450,000 5.000% Term Bonds Due August 1, 2016 – Reoffering Price: 105.330*
 \$1,520,000 5.000% Term Bonds Due August 1, 2017 – Reoffering Price: 105.129*
 \$1,600,000 5.000% Term Bonds Due August 1, 2018 – Reoffering Price: 104.710*
 \$1,680,000 5.000% Term Bonds Due August 1, 2019 – Reoffering Price: 104.376*
 \$1,765,000 5.000% Term Bonds Due August 1, 2020 – Reoffering Price: 104.043*
 \$1,805,000 5.000% Term Bonds Due August 1, 2021 – Reoffering Price: 103.878*
 \$2,000,000 5.000% Term Bonds Due August 1, 2022 – Reoffering Price: 103.712*
 \$2,045,000 5.125% Term Bonds Due August 1, 2023 – Reoffering Price: 104.889*

*Priced to August 1, 2016, the first optional redemption date, at a redemption price of 100% par.

The Bonds are being offered when, as and if issued by the Bond Bank and received by the Underwriters set forth below, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank, by its special counsel, Baker & Daniels LLP, Indianapolis, Indiana; for the Qualified Entity, by its bond counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana; for the City by Carmen Fernandez, Corporation Counsel for the City of East Chicago, Indiana; for the State of Indiana by its disclosure counsel, Barnes & Thornburg LLP, Indianapolis, Indiana; and for the Underwriters by their counsel, Ice Miller LLP, Indianapolis, Indiana. It is expected that the Bonds will be available for delivery to DTC in New York, New York, on or about May 23, 2006.



CITY SECURITIES
CORPORATION

Cabrera Capital Markets, Inc.

May 9, 2006

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

No dealer, broker, salesman or other person has been authorized by the Indiana Bond Bank, the East Chicago Municipal Building Corporation or the City of East Chicago, Indiana to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Indiana Bond Bank, the East Chicago Municipal Building Corporation or the City of East Chicago, Indiana. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the securities described herein by any person in a jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been provided by the Indiana Bond Bank, the East Chicago Municipal Building Corporation, the City of East Chicago, Indiana and by other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the securities described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the East Chicago Municipal Building Corporation or the City of East Chicago, Indiana since the date of this Official Statement.

In connection with this offering the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at a level above that which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE STATE, THE BOND BANK, THE EAST CHICAGO MUNICIPAL BUILDING CORPORATION, THE CITY OF EAST CHICAGO AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the captions "Bond Insurance" and "Debt Service Reserve Fund Credit Facility" and in Appendix E, "Specimen Bond Insurance Policy" and Appendix F, "Specimen Debt Service Reserve Fund Credit Facility" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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OFFICIAL STATEMENT

\$26,485,000
INDIANA BOND BANK
SPECIAL PROGRAM REFUNDING BONDS
(EAST CHICAGO MUNICIPAL BUILDING CORPORATION),
SERIES 2006 A

INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its \$26,485,000 aggregate principal amount of Special Program Refunding Bonds (East Chicago Municipal Building Corporation Project), Series 2006 A (the "Bonds"). The Bonds are authorized by a resolution adopted by the Board of Directors of the Bond Bank on April 11, 2006, and are issued under and secured by a Trust Indenture dated as of May 1, 2006 (the "Indenture"), between the Bond Bank and Mercantile National Bank of Indiana, Hammond, Indiana, as trustee, registrar and paying agent (the "Trustee"), all pursuant to the laws of the State of Indiana (the "State"), particularly Indiana Code, Title 5, Article 1.5 (the "Act"), to refund the Bond Bank's Special Program Bonds, Series 2000A (City of East Chicago Facilities Building Corporation Project) originally issued in the amount of \$31,495,000 and currently outstanding in the amount of \$28,490,000 (the "Refunded Bonds") for the purpose of providing funds to purchase the First Mortgage Bonds of the City of East Chicago Facilities Building Corporation (the "Original Qualified Entity") which is authorized under Indiana law to issue bonds and construct facilities for lease to the City of East Chicago, Indiana (the "City"). The Bonds are issued and secured separately from all other obligations issued by the Bond Bank. The Original Qualified Entity's First Mortgage Bonds will be discharged, and the East Chicago Municipal Building Corporation (the "Qualified Entity") will issue to the Bond Bank its First Mortgage Refunding Bonds, Series 2006 (the "Qualified Obligations") in exchange for the cancellation of the Original Qualified Entity's First Mortgage Bonds.

The Program

The Bond Bank is a separate body corporate and politic, constituting an instrumentality of the State of Indiana (the "State") for the public purposes set out in the Act. The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity and has no taxing power. Pursuant to the Act, the purpose of the Bond Bank is to assist political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, as defined in the Act, and any organizations with members that are an individual qualified entity through programs of purchasing the Bonds or evidences of indebtedness of such qualified entity or leases or certificates or other evidences of participation in lessor's interests in or rights under leases with such qualified entity, all of which are payable from taxes or from revenues, rates, charges or assessments or from the proceeds of funding or refunding bonds, bonds or evidences of indebtedness, leases, or certificates or other evidences of participation in leases with a qualified entity and which secure the bonds issued by the Bond Bank. A qualified entity can include, but

is not limited to, such entities as all State universities, cities, towns, counties, school corporations, library corporations and not-for-profit corporations and associations which lease facilities to such entities.

The Bonds are payable solely out of and secured by a pledge of certain revenues as defined below and funds of the Bond Bank pledged for payment under the Indenture. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision of the State under the constitution of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision. The sources of payment and security for the Bonds are further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in this Official Statement.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and all appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds will be issued under and secured by the Indenture. The principal of and interest on the Bonds are payable from those revenues and funds of the Bond Bank which, together with the Qualified Obligations, are pledged pursuant to the Indenture for the benefit of the owners of the Bonds without priority. The Bonds constitute moral obligations of the State to the extent of the debt service reserve for the Bonds and the provisions of Indiana Code 5-1.5-5, pertaining to a moral obligation. Neither the faith, credit nor taxing power of the State or any political subdivision thereof, including the City, is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt, liability, or loan of the credit of the State or any political subdivision thereof, including the City. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from all other obligations issued by the Bond Bank.

The Bonds are secured by the pledge of the Trust Estate established under the Indenture (the "Trust Estate"), which includes (a) all right, title and interest of the Bond Bank in, to and under the Qualified Obligations which will be purchased by the Bond Bank and delivered to the Trustee pursuant to a Purchase Agreement (the "Agreement"); (b) all right, title and interest in any and all other property, real, personal or mixed, from time to time conveyed, mortgaged, pledged, assigned or transferred as additional security under the Indenture by the Bond Bank or by anyone on behalf of the Bond Bank; (c) the proceeds from the sale of the Bonds; and (d) all revenues held in the Funds and Accounts (other than the Rebate Fund) under the Indenture. All Bonds will be secured equally and ratably by all of the foregoing.

The principal source of payment on the Bonds will be the principal and interest payments received by the Bond Bank from the Qualified Entity under the Qualified Obligations. The principal of and interest on the Qualified Obligations are payable from lease payments made by the City from certain ad valorem property tax revenues as further described under the caption,

"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Provisions for Payment of the Qualified Obligations."

The Qualified Obligations

The Qualified Obligations will be issued to the Bond Bank in exchange for the cancellation of the Original Qualified Entity's First Mortgage Bonds and delivered to the Trustee, pursuant to the Agreement. The information set forth below has been supplied to the Bond Bank by the Qualified Entity.

The Qualified Obligations consists of \$26,555,000 in aggregate principal amount of First Mortgage Refunding Bonds, Series 2006 issued by the Qualified Entity. The Qualified Obligations are payable from lease rental payments (the "Rental Payments") to be made by the City pursuant to a lease dated September 1, 1999 (the "Lease") between the Qualified Entity, as successor lessor, and the City, as lessee. The premises covered by the Lease consist of a facility of approximately 98,400 square feet for city clerk, court, emergency medical services and 911 services in the City (the "Project"). The Qualified Obligations are being issued and delivered pursuant to a trust indenture, dated as of January 27, 2000 as supplemented by a Supplemental Indenture dated as of May 1, 2006 (the "City Indenture"), between the Qualified Entity and Mercantile National Bank of Indiana, Hammond, Indiana, as trustee (the "City Trustee"). The final maturity date of the Qualified Obligations is January 20, 2024. Pursuant to the City Indenture, the Qualified Entity has granted a mortgage in the Project to the City Trustee as security for the Qualified Obligations.

Provisions for Payment of the Qualified Obligations

Under the City Indenture, all of the semi-annual Rental Payments and income and amounts in the funds established under the City Indenture are pledged and assigned as security for payment of the Qualified Obligations. The Rental Payments required to be made by the City under the Lease are payable from ad valorem taxes to be levied by the City on all of the taxable property within the City. The levy of taxes by the City to pay the Rental Payments under the Lease is mandatory under the Indiana Code, so long as the City has the right to use the Project. Neither the Qualified Obligations nor the obligation of the City to make Rental Payments under the Lease constitutes a debt of the City, the State or any other political subdivision of the State. See Appendix B for a description of the City.

The Rental Payments payable to the City Trustee, as assignee of the Qualified Entity, are calculated to be sufficient to pay, when due, the payments on the Qualified Obligations (the "Qualified Obligation Payments"), subject to the provisions in the Lease relating to abatement or reduction of Rental Payments in the event of damage to or destruction of the Project. During the full term of the lease, the City is required to maintain rent or rental value insurance in an amount equal to the full rental value of the demised Premises for a period of two (2) years against physical loss or damage of the type required to be insured against.

It is contemplated that the Rental Payments to be made by the City during its occupancy of the Project will be the primary sources of payment of the Qualified Obligation Payments. Under the Indiana Code, the City is not permitted to make Rental Payments until the Project is

substantially completed and ready for occupancy. The Project was completed in time for the City to make the payment due on January 5, 2002. Thereafter, Rental Payments have been and are due and payable on each January 5 and July 5 during the Lease term. The Qualified Obligations are further secured by a first mortgage lien on the premises that are the subject of the Lease.

Prior to February 15 of each year for taxes to be collected during that year, the Department of Local Government Finance (the "DLGF") is required to review the proposed budgets, tax rates and tax levies of each political subdivision, including the City, and the proposed appropriations from those levies to pay principal of and interest on each political subdivision's outstanding general obligation bonds and to pay the political subdivision's outstanding lease rental obligations (collectively "bond and lease obligations") to be due and payable in the next calendar year. If it determines that the proposed levies and appropriations are insufficient to pay the bond and lease obligations, the DLGF may at any time increase the tax rate and tax levy of a political subdivision to pay such bond and lease obligations.

In 2006, the State General Assembly enacted legislation, pursuant to which each taxpayer will be entitled to a credit to the extent that its property taxes attributable to the entirety of its real and personal property located in a county are in excess of two percent of the assessed value of such property in that county. The application of those credits shall apply to property taxes first due and payable in calendar year 2010 and each calendar year thereafter. For property taxes due and payable in calendar years 2008 and 2009, each taxpayer will be entitled to a credit to the extent that its property taxes attributable to its qualified residential property located in Lake County are in excess of two percent of the assessed value of such property in Lake County. "Qualified residential property" includes: (1) apartment complexes; (2) homesteads; and (3) residential rental property. Pursuant to that legislation, the Lake County Council adopted an Ordinance on April 11, 2006, which provides that, for property taxes due and payable in calendar years 2006 and 2007, each taxpayer will be entitled to a credit to the extent that its property taxes attributable to its homestead located in Lake County are in excess of two percent of the assessed value of such property in Lake County.

In the event the application of those credits result in a reduction of the property tax collections of any political subdivision, the legislation prohibits the political subdivision from increasing its property tax levy to make up for that reduction. No calculation has been performed to determine the effect of those credits on the City's anticipated tax receipts. However, the City believes that the authority of the DLGF to establish for the City levies and appropriations which are sufficient to pay its bond and lease obligations, including the rental payments under the Lease when due, should not be affected by such legislation.

See Appendix B for a summary of the financial information concerning the City, including its revenues and costs of operations. Included in Appendix B is a description of the largest taxpayers and largest employers in the City.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

1. Moneys available to the Bond Bank required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture or any future Refunding Bond proceeds or other money required by a supplemental indenture or resolution of the Bond Bank;
2. All money required to be transferred to the Debt Service Reserve Fund from the General Account under the Indenture;
3. All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and
4. Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the Reserve Requirement (as defined in Appendix D). The Bond Bank will satisfy the Reserve Requirement with respect to the Bonds by depositing a Debt Service Reserve Fund Credit Facility in the Debt Service Reserve Fund. See "DEBT SERVICE RESERVE FUND CREDIT FACILITY."

State Appropriations Mechanism

The Act authorizes, subject to the prior review of the State Budget Committee and the approval of the State Budget Director (which review and approval have been deemed conducted and received, respectively, with respect to the Bonds), the Indenture to provide that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year to the State General Assembly, as necessary to restore the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any Fiscal Year in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$469,590,000 in separate

program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

Also under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2005, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,417,516,000 and its total net unearned premium reserve was approximately \$1,850,446,000 in accordance with statutory accounting principles. At December 31, 2005, Financial Security's consolidated shareholder's equity was approximately

\$2,822,902,000 and its total net unearned premium reserve was approximately \$1,509,867,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

DEBT SERVICE RESERVE FUND CREDIT FACILITY

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to the maximum annual principal and interest requirements on the Bonds and the Refunding Bonds. At the time of issuance of the Bonds, the Reserve Requirement means an amount equal to \$2,186,637.50, and thereafter, if less than such amount, shall be the maximum annual principal and interest requirements on the Outstanding Bonds and Outstanding Refunding Bonds in the then current or any succeeding Fiscal Year. The Indenture authorizes the Bond Bank to obtain a Debt Service Reserve Fund Credit Facility in place of fully funding the Debt Service Reserve Fund. Accordingly, a commitment has been made by Financial Security for the issuance of a Debt Service Reserve Fund Credit Facility (the "Series 2006 A Debt Service Reserve Fund Credit Facility") for the purpose of funding the Debt Service Reserve Fund (see "OPERATION OF FUNDS AND ACCOUNTS" herein). The Bonds will only be delivered upon the issuance of the Series 2006 A Debt Service Reserve Fund Credit Facility. The premium on the Series 2006 A Debt Service Reserve Fund Credit Facility is to be fully paid at or prior to the issuance and delivery of the Series Bonds. The Series 2006 A Debt Service Reserve Fund Credit Facility provides that upon the later of (i) one day after receipt by Financial Security of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds and the Refunding Bonds when due has not been made or (ii) the principal or interest payment date specified in the notice of nonpayment submitted to Financial Security, Financial Security will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the Policy Limit, as defined in the Series 2006 A Debt Service Reserve Fund Credit Facility.

Pursuant to the terms of the Series 2006 A Debt Service Reserve Fund Credit Facility, the Policy Limit is automatically reduced to the extent of each payment made by Financial Security under the terms of the Series 2006 A Debt Service Reserve Fund Credit Facility and the Bond Bank is required to reimburse Financial Security for any draws under the Series 2006 A Debt Service Reserve Fund Credit Facility with interest at the rate set forth in the Indenture. Upon such reimbursement, the Series 2006 A Debt Service Reserve Fund Credit Facility is reinstated to the extent of each principal reimbursement up to but not exceeding the Policy Limit. The reimbursement obligation for the Bond Bank is subordinate to the Bond Bank's obligations with respect to the Bonds and the Refunding Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Series 2006 A Debt Service Reserve Fund Credit Facility, any draw on the Series 2006 A Debt Service Reserve Fund Credit Facility will be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in or credited to the Debt Service Reserve Fund, in addition to the amount available under the Series 2006 A Debt Service Reserve Fund Credit Facility, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Series 2006 A Debt Service Reserve Fund Credit Facility and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

RISKS TO THE OWNERS OF THE BONDS

The ability of the Bond Bank to pay principal of, redemption premium, if any, and interest on the Bonds depends primarily upon the receipt by the Bond Bank of Qualified Obligation Payments from the Qualified Entity which is obligated to make such payments to the Bond Bank, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no Fund which is required to contain amounts to make up for any deficiencies in the event of one or more defaults by the Qualified Entity in making such Qualified Obligation Payments, and there is no source from which the General Fund will be replenished except the Qualified Obligation Payments and investment income on moneys in the Funds and Accounts. There can be no representation or assurance that the City will realize sufficient revenues or tax receipts to make its required Rental Payments to the Qualified Entity to enable the Qualified Entity to make its Qualified Obligation Payments. The realization of such revenues or tax receipts by the City is subject to, among other things, future economic and demographic conditions and other conditions which are variable and not certain of prediction and the effects thereof upon particular taxpayers located in the City. For a description of the City, see APPENDIX B. For a description of procedures for providing for the payment of Qualified Obligations, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Provisions for Payment of the Qualified Obligations" herein.

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and

there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – State Appropriations Mechanism" herein.

It is expected that the funds held under the Indenture (the "Investments Amounts") will be invested from time to time in an Investment Agreement entered into between the Trustee and an Investment Agreement Provider, currently rated in one of the two highest full rating categories by Standard & Poor's Ratings Group. It is anticipated that the Investment Amounts, together with the earnings thereon, pursuant to the terms of the Investment Agreement will be used to pay all or a portion of principal of and interest on the Bonds. However, there can be no assurance that a financial institution will be able to return the Investment Amounts and the earnings thereon on a timely basis or at the rates contemplated under an investment agreement. In the event that a financial institution fails to return the Investment Amounts or the earnings thereon on a timely basis or at the rates contemplated under an investment agreement, the Investment Amounts and the earnings thereon may be unavailable to pay debt service on the Bonds. Similarly, there can be no assurance that, in the event of the insolvency, bankruptcy or similar deterioration in financial condition of a financial institution, the Investment Amounts and the earnings thereon will be available, if needed, to pay debt service on the Bonds.

The Bond Bank has covenanted under the Indenture to take all qualifying actions and not to fail to take any qualifying actions required to assure the continuing exclusion of interest on the Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Bonds to be taxable retroactive to the date of issuance. Also, in connection with the purchase of the Qualified Obligations, the Bond Bank will receive an opinion of Bose McKinney & Evans to the effect that, conditioned upon continuing compliance by the Qualified Entity and the City with certain covenants made in connection with the issuance of such Qualified Obligations, the interest on the Qualified Obligations is excludable from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable in the event that the Qualified Entity or the City fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United State government all arbitrage earnings with respect to its Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be "private activity bonds" under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds and any applicable regulations promulgated thereunder (the "Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the Bonds retroactive to the date of issuance. See "TAX MATTERS" herein.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon an event of default (an "Event of Default") under the Indenture or under the terms of the Qualified Obligations are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Qualified Obligations may not be readily available or may be limited.

THE BONDS

The Bonds will be issued in fully registered form and registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), in the denomination of \$5,000 or any integral multiple of that amount, will be dated the date of delivery, and mature on the dates and in the amounts and bear interest at the rates set forth on the cover page of this Official Statement.

Principal of and interest on the Bonds, payable on February 1 and August 1, commencing August 1, 2006, will be paid by wire transfer of immediately available funds on the interest payment date to depositories shown as registered owners.

So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be paid directly to DTC by the Paying Agent. Interest will be paid on the basis of a 360-day year consisting of twelve 30-day months. Payment shall be made to the depository in whose name the Bond is registered on the fifteenth day preceding an interest payment date. (The final disbursement of such payments to the Beneficial Owners of the Bonds will be the responsibility of the Direct Participants and Indirect Participants, all as defined and more fully described herein.)

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between

Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org**.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bond Bank takes no responsibility for the accuracy thereof.

Revision of Book-Entry-Only System

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holder of the Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Bonds and to transfer the ownership of each

of the Bonds to such person or persons, including any other clearing agency, as the holder of such Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Bonds, will be paid by the Bond Bank.

Optional Redemption

The Bonds due on and after August 1, 2017 may be redeemed prior to maturity, at the option of the Bond Bank, in whole or in part, in such order of maturity as determined by the Bond Bank, and by lot within maturities, on any date not earlier than August 1, 2016, at 100% of the principal amount thereof plus in each case accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption Prior to Maturity

Term Bonds Due August 1, 2016

The Term Bonds which mature on August 1, 2016 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2016	\$715,000	Aug 1, 2016 ⁽¹⁾	\$735,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2017

The Term Bonds which mature on August 1, 2017 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2017	\$750,000	Aug 1, 2017 ⁽¹⁾	\$770,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2018

The Term Bonds which mature on August 1, 2018 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2018	\$790,000	Aug 1, 2018 ⁽¹⁾	\$810,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2019

The Term Bonds which mature on August 1, 2019 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2019	\$830,000	Aug 1, 2019 ⁽¹⁾	\$850,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2020

The Term Bonds which mature on August 1, 2020 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2020	\$870,000	Aug 1, 2020 ⁽¹⁾	\$895,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2021

The Term Bonds which mature on August 1, 2021 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2021	\$915,000	Aug 1, 2021 ⁽¹⁾	\$890,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2022

The Term Bonds which mature on August 1, 2022 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2022	\$1,015,000	Aug 1, 2022 ⁽¹⁾	\$985,000

⁽¹⁾ Final maturity

Term Bonds Due August 1, 2023

The Term Bonds which mature on August 1, 2023 are subject to mandatory sinking fund redemption on the dates and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Feb 1, 2023	\$1,010,000	Aug 1, 2023 ⁽¹⁾	\$1,035,000

⁽¹⁾ Final maturity

Notice of Redemption

Notice of the call for any redemption, identifying the Bonds (or any portions thereof in integral multiples of \$5,000 each) to be redeemed, will be given by the Trustee at least 30 days but not more than 45 days prior to the date fixed for redemption by mailing a copy of the redemption notice by first class, registered or certified mail to the registered owner of each Bond to be redeemed at the address shown on the registration books. Failure to mail such notice to any particular owner of Bonds, or any defect in the notice mailed to any such owner of Bonds, will not affect the validity of the call for the redemption of any other Bonds. So long as DTC or its nominee is the registered owner of the Bonds, notice of the call for any redemption will be given to DTC, and not directly to Beneficial Owners. See "THE BONDS - Book-Entry-Only System."

Redemption Payments

Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Bonds called, together with accrued interest on the Bonds to the redemption date. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Bonds that have been called.

APPLICATION OF THE PROCEEDS OF THE BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the Bonds, together with other moneys made available by the Bond Bank, the Original Qualified Entity and the Qualified Entity.

SOURCES OF FUNDS

Principal amount of Bonds	\$26,485,000.00
Net original issue premium	693,798.00
Transfers from the Refunded Bonds' Debt Service Reserve and General Funds	2,807,353.65
Transfers from the Original Qualified Entity's First Mortgage Bonds' Construction and Operation and Reserve Funds	<u>1,389,655.06</u>
TOTAL SOURCES	\$31,375,806.71

USES OF FUNDS

Deposit to Escrow Account	\$30,652,200.00
Underwriters' discount	172,085.60
Other costs of issuance and premiums for Series 2006 A Bond Insurance Policy and Debt Service Reserve Fund Credit Facility	<u>551,521.11</u>
TOTAL USES	\$31,375,806.71

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity, a purchase, acquisition or a sale of qualified obligations or other investments or the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and

fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;
8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;
9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;
10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and
11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes, or other obligations not secured by a reserve fund under Indiana Code 5- 1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Board of Directors of the Bond Bank (the "Board") consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below. Upon expiration of such term, a Director will continue to serve until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Board elects one Director to serve as Vice Chairman. The Board also appoints and fixes the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999 to present and Chairman Ex Officio. Residence: Indianapolis, Indiana. Member, Indiana State Board of Finance; Vice-Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority; Allen County, Indiana Treasurer 1990 to February, 1999.

Ryan C. Kitchell, Public Finance Director of the Indiana Finance Authority, January 10, 2006 to present. Residence: Zionsville, Indiana. Chairman, Board for Public Depositories; Board Member, Indiana Deferred Compensation Committee; Board Member, Indiana Housing

Finance Authority; Board Member, Indiana Health and Education Facility Authority. Senior Financial Analyst, Eli Lilly & Company, 2002-2006; Research Associate, Indiana Fiscal Policy Institute, 1999-2000; Investment and Senior Analyst, Prudential Capital Group, 1996-1999.

Clark H. Byrum, Vice Chairman; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and Norcen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

C. Kurt Zorn, Director; term expired July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to present; Chairman, State Board of Tax Commissioners, January 1991 to August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987 to 1994 (on leave 1989 to 1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Russell Breeden, III, Director; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to 2002. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Marni McKinney, Director, term expired July 1, 2004. Residence: Indianapolis, Indiana. Vice President, 1984 to 1999 and Chairman of the Board, 1999 to present, First Indiana Bank; President and CEO, The Somerset Group, 1995 to 2000; Vice Chairman and Chief Executive Officer, First Indiana Corporation, 1999 to present; Board of Directors, The Children's Museum and Community Hospitals of Indiana, Inc.; Investment Committee Member, The Indianapolis Foundation.

Russell G. Lloyd, Jr., Director, term expires July 1, 2006. Residence: Evansville, Indiana. Senior Director, Kruse, Dicus and Associates, LLP 2004 to Present; Mayor, Evansville, Indiana, 2000 to 2003; Controller and Assistant Controller, Evansville, Indiana, 1988 to 1999; Various Management Positions, Citizens National Bank, 1980 to 1988.

Although the expiration date of the terms of four Directors has passed, the Act provides that their terms will not expire until their successors are appointed and qualified. No such successors have been appointed and qualified.

The Board is authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of The Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 19 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

Outstanding Indebtedness

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$2,040,755,000 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of \$1,000,000,000. However, such aggregate limit does not apply to, inter alia, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$469,590,000 in separate program obligations which count against the \$1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financings for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such additional financings will be secured separately and independently from the Bonds and will not constitute Bonds.

REVENUES, FUNDS AND ACCOUNTS

Creation of Funds and Accounts

The Indenture establishes the following special trust funds and accounts to be held by the Trustee:

1. General Fund which contains a General Account, Bond Issuance Expense Account and a Redemption Account;
2. Debt Service Reserve Fund; and
3. Rebate Fund.

Deposit of Net Proceeds of the Bonds

The Trustee will deposit the net proceeds from the sale of the Bonds as follows:

1. To the Escrow Account an amount equal to \$26,455,191.29, which will be applied, along with other moneys provided to the Bond Bank, to the purchase of the Governmental Obligations that will be deposited in the Escrow Account held under the Escrow Agreement dated as of May 1, 2006, between the Bond Bank and the Escrow Trustee and used to pay the principal of and interest on the Refunded Bonds through February 1, 2010 and the redemption price of the Refunded Bonds on February 1, 2010.

2. To the Bond Issuance Expense Account an amount equal to \$379,039.02 which is the amount needed to pay the costs of issuance of the Bonds (other than Underwriters' Discount and the premiums paid to Financial Security for the Series 2006 A Bond Insurance Policy and the Series 2006 A Debt Service Reserve Fund Credit Facility, which will be paid by the Underwriters for and on behalf of the Bond Bank).

The Trustee will deposit the proceeds of any Refunding Bonds as provided in a Supplemental Indenture authorizing the issuance of such Refunding Bonds.

Deposit of Revenues and Other Receipts

The Trustee will deposit all Revenues into the Funds and Accounts as follows:

1. All payments of principal of and interest on Qualified Obligations paid by the Qualified Entity will be deposited in the General Account;
2. All income or gain from the investment of moneys (except moneys in the Rebate Fund), and all other Revenues will be deposited in the General Account; provided, however, that investment earnings on the Debt Service Reserve Fund will remain in the Debt Service Reserve Fund until the balance in such fund equals the Reserve Requirement from time to time and thereafter be disbursed as provided in the Indenture; and
3. All income or gain from the investment of moneys in the Rebate Fund will remain in the Rebate Fund.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will make the following payments from the General Account on the specified dates, and, in the event of insufficient funds to make all of such required payments, with the following order of priority:

- (a) On the date of initial delivery of the Bonds, to make the deposit into the Escrow Account, which, together with other available funds, will be used to purchase the Governmental Obligations and to defease the Refunded Bonds and thereby enable the Bond Bank to acquire the Qualified Obligations;
- (b) On or before 10:00 A.M. in the city in which the Trustee is located on the business day next preceding each Interest Payment Date, such amount as will be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;
- (c) As soon as funds become available, to the Debt Service Reserve Fund sufficient amounts to assure that the Reserve Requirement is met from time to time;

(d) As necessary, to the Bond Bank amounts to pay Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before 30 days after each anniversary of the issuance of the Bonds, the amounts to be transferred to the Rebate Fund; and

(f) After making such deposits, the Trustee will retain such remaining amounts in the General Account to be used from time to time for the purposes described in paragraphs (b) through (e) above. Upon final maturity of the Bonds, any money remaining in the General Account which is not needed to pay any of the costs described in paragraph (b) through (e) above in connection with the final maturity of the Bonds will be transferred within thirty (30) days after such final maturity to the Qualified Entity. However, the Bond Bank must supply the Trustee with a Cash Flow Certificate to the effect that, after such transfer, Revenues expected to be received and money expected to be held in the Funds and Accounts will at least equal debt service on all Outstanding Bonds, together with Program Expenses, if any.

Redemption Account. The Trustee will deposit in the Redemption Account all money received from the sale or optional or mandatory redemption prior to maturity of the Qualified Obligations and all other money required to be deposited therein pursuant to the provisions of the Indenture, will invest such funds pursuant to the Indenture and will disburse the funds in the Redemption Account as follows:

(a) On the fifteenth day of each month, to the General Account an amount equal to the principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed prior to maturity.

(b) On the second business day prior to each Interest Payment Date, if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account such amounts as are not already committed to the redemption of Bonds for which notice of redemption has already been given.

(c) After provision has been made for the required transfers to the General Account, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, or (ii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption and not in excess of the applicable redemption price for such Bonds; the Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase will be made by the Trustee within the prior of forty-five (45) days next preceding an interest payment date or a date on which such Bonds are subject to redemption under the provisions of the Indenture.

(d) In the event the Trustee is unable to purchase Bonds in accordance with subparagraph (c), then, subject to restrictions on redemption set forth in the Indenture (see "THE BONDS—Optional Redemption and —Mandatory Sinking Fund Redemption"), the Trustee will call for redemption on the next ensuing redemption date such amount of the Bonds of such maturity or maturities as directed by an Authorized Officer as, at the Redemption Price thereof, will exhaust the Redemption Account as nearly as may be possible. Such redemption will be made pursuant to the Indenture. The Trustee will pay the interest accrued on the Bonds so redeemed to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

Bond Issuance Expense Account. The Trustee will deposit in the Bond Issuance Expense Account the money required to be deposited by the Indenture, will invest such funds pursuant to the Indenture and will disburse the funds held in the Bond Issuance Expense Account upon receipt of acceptable invoices or requisitions to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. The Trustee will transfer any funds remaining in the Bond Issuance Expense Account to the General Account on November 1, 2006.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all money required to be deposited therein pursuant to the Indenture, any moneys appropriated by the General Assembly of the State of Indiana to the Debt Service Reserve Fund, and any other moneys directed by the Bond Bank; will invest such funds pursuant to the Indenture, and will disburse the funds held in the Debt Service Reserve Fund to the General Account if, on the second business day next preceding each Interest Payment Date the moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date after taking into account available funds on deposit in the General Account.

The Trustee will disburse the funds held in the Debt Service Reserve Fund to pay principal and interest on the Bonds only in the event that moneys in the General Fund are insufficient to pay such amount due. The Trustee will draw first on cash or Investment Securities on deposit in the Debt Service Reserve Fund and then *pro rata* as provided in the Supplemental Indentures or Debt Service Reserve Fund Credit Facility or Facilities. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account or the Redemption Account, as directed by the Bond Bank.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in excess of the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below.

If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from any appropriations made by the General Assembly

of the State of Indiana or funds otherwise available from the Trust Estate) within 60 days after the end of the Fiscal Year of the Bond Bank during which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Credit Facility. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Credit Facility. See "DEBT SERVICE RESERVE FUND CREDIT FACILITY" herein.

If a deficiency in the Debt Service Reserve Fund is projected by Bond Bank in the next succeeding Fiscal Year, the Chairman of the Bond Bank will certify such projected deficiency or depletion to the General Assembly of the State of Indiana on or before August 1 of the Fiscal Year in which the deficiency is projected to occur.

The Bond Bank will take all actions required or allowed by the Act to certify to the General Assembly of the State of Indiana any deficiency in the Debt Service Reserve Fund, regardless of whether such deficiency was projected by the Bond Bank.

Rebate Fund

The Rebate Fund will be established to comply with the provisions of Section 148 of the Code concerning the rebate of certain arbitrage earnings to the United States of America. Deposits into the Rebate Fund and disbursements from the Rebate Fund will be made as provided by the Indenture and as required by federal tax law applicable to the Bonds. The Rebate Fund is not subject to the lien of the Indenture and does not constitute a Fund or Account for purposes of the Indenture.

So long as any of the Bonds are Outstanding and the Bond Bank is subject to a rebate obligation under the Code, the Bond Bank covenants to establish and maintain the Rebate Fund and to comply with the instructions relating to its ongoing rebate responsibilities delivered on the date of initial delivery of the of Bonds. Such instructions will set forth procedures which may be amended from time to time.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebate payments to the United States of America and the fees, charges and expenses of the Trustee and the Bond Bank will be distributed to the Qualified Entity.

Investment of Funds

Any money held as a part of any Fund or Account under the Indenture will be invested and reinvested at all times as continuously as reasonably possible by the Trustee in such Investment Securities as may be directed by the Bond Bank; provided, however, in the absence of such direction, the Trustee will select Investment Securities at its discretion. All such

investments will at all times be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments will be deposited in the General Account except for income and profits on investment of funds in the Rebate Fund which will remain in the Rebate Fund and except for investment earnings on the Debt Service Reserve Fund which will remain in the Debt Service Reserve Fund until the balance in such fund equals the Reserve Requirement from time to time and thereafter be disbursed as provided in the Indenture. Any investment income, gains or losses from an Investment Security will be charged to the Fund or Account from which money was employed to invest in such Investment Security, subject to any requirements in the Act with respect to earnings on money appropriated by the General Assembly of the State of Indiana to the Debt Service Reserve Fund. The Trustee will not be liable for any investment losses. Moneys in any Funds or Accounts will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of the Investment Security) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash sufficient amounts of such Investment Securities in a respective Fund or Account as may be necessary to make up a deficiency in any amounts required to be distributed from such Fund or Account.

Obligations purchased as investments of moneys in any Funds or Accounts, except the Debt Service Reserve Fund, with a stated maturity of less than two years will be valued at cost, including accrued interest paid and unamortized debt discount. All other such obligations will be valued at cost, including accrued interest paid and unamortized debt discount, or market value, whichever is lower, exclusive of earned accrued interest. Investment Securities held in the Debt Service Reserve Fund will be valued at their amortized costs.

THE STATE OF INDIANA

A discussion of the State and its financial condition and procedures is set forth in APPENDIX A" Certain Financial and Economic Information on the State of Indiana." **However, the faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.**

THE BONDS AS LEGAL INVESTMENTS

Under the Act all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the Bonds of the Bond Bank issued under the Act.

LITIGATION

Bond Bank

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation (1) restraining or enjoining the issuance, sale, execution or delivery of the Bonds, (2) prohibiting the Bond Bank from receiving the Qualified Obligations, (3) in any way contesting or affecting the validity of the Bonds, or (4) restraining or enjoining any proceedings of the Bond Bank taken

with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

The Original Qualified Entity, the Qualified Entity and the City of East Chicago, Indiana

Upon the issuance of the Bonds, the Bond Bank will receive a certification from each of the Original Qualified Entity, the Qualified Entity and the City to the effect that there is not now pending or, to the best knowledge of the Original Qualified Entity, the Qualified Entity or the City, respectively, threatened any litigation restraining or enjoining (i) the execution of the Qualified Obligations, the Agreement or the Lease or (ii) any proceedings of the Original Qualified Entity, the Qualified Entity or the City, respectively, taken with respect to the Qualified Obligations or the Lease or the pledge or application of any moneys or security provided for the payment of the Qualified Obligations, or in any way contesting or affecting the validity of the Qualified Obligations, the Agreement or the Lease.

TAX MATTERS

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds (the "Code"). The opinion of Barnes & Thornburg LLP is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entity and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax. See Appendix C herein for the form of opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the excludability of the interest on the Bonds from gross income for federal income tax purposes. Noncompliance with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issue, regardless of the date on which noncompliance occurs. Should the Bonds bear interest that is not excludable from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. It is not an event of default if interest on the Bonds is not excludable from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes and exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Bonds maturing on February 1, 2013, through and including February 1, 2014 (collectively the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds, will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates). An owner who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity will treat the accrued amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial public offering price of the Bonds maturing on August 1, 2006, through and including August 1, 2012, August 1, 2014, and August 1, 2016, through and including February 1, 2024 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial public offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (1) the amount of amortizable Bond Premium and (2) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found in Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be delivered with the Bonds. Bond Counsel will render a further opinion that representatives of such firm have reviewed the information contained under the captions, "INTRODUCTION," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "THE BONDS" (except statements under "Book-Entry-Only System" and "Revision of Book-Entry-Only System"), "REVENUES, FUNDS AND ACCOUNTS," "TAX MATTERS," "ORIGINAL ISSUE DISCOUNT," "AMORTIZABLE BOND PREMIUM," and "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" of this Official Statement and determined that such information, to the extent that such information purports to summarize certain provisions of the Act, the Bonds, the Indenture and its bond counsel opinion and original issue discount and amortizable bond premium with respect to the Bonds, presents, in all material respects, an accurate summary thereof. Certain legal matters will be passed upon for the State by its disclosure counsel, Barnes & Thornburg LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Bond Bank by its special counsel, Baker & Daniels LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Ice Miller LLP, Indianapolis, Indiana.

Bose McKinney & Evans LLP, Indianapolis, Indiana, serves as bond counsel to the Qualified Entity in connection with the issuance and delivery of its bonds to the Bond Bank and will be passing on certain legal matters in connection therewith. Carmen Fernandez, East Chicago, Indiana, serves as Corporation Counsel to the City and will be passing on certain legal matters on behalf of the City.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon an Event of Default under the Indenture, under the terms of any of the Qualified Obligations purchased by the Bond Bank, and under the terms of the Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Qualified Obligations, the Lease or the Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally (regardless of whether such enforceability is considered in a proceeding in equity or in law), by general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or at law) and by the valid exercise of the constitutional powers of the State and the United States of America. These exceptions would encompass any exercise of any of the police powers of the Qualified Entity or the City in a manner consistent with the public health and welfare. Enforceability of the Indenture, the Qualified Obligations, the Agreement or the Lease in situations where such enforcement may adversely affect public health and welfare may be subject to the police powers of the State, the Qualified Entity or the City.

THE OFFICIAL STATEMENT; ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The information contained under the caption "INTRODUCTION" is qualified by reference to this entire Official Statement, including the Appendices hereto. This introduction is only a brief description and a full review should be made of this entire Official Statement, including the appendices hereto, as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entity and copies of the Indenture may be obtained from the Indiana Bond Bank, 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317)233-0888.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture. See "CONTINUING DISCLOSURE."

RATINGS

Standard & Poor's Ratings Services ("S&P") will assign a rating of "AAA," with the understanding that, upon delivery of the Bonds, a municipal bonds insurance policy, insuring the payment when due of the principal of and interest on the Bonds, will be issued by Financial Security. S&P has assigned an underlying rating of "A+" on the Bonds. These ratings reflect only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10004. Such ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that such ratings will remain in effect for any given period of time or that any of such ratings will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect upon the market price or marketability of the Bonds. No other ratings have been applied for.

UNDERWRITING

Under a bond purchase agreement entered into between the Underwriters and the Bond Bank, the Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$27,006,712.40. The bond purchase agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the bond purchase agreement.

The Underwriters have agreed to make an initial public offering of all of the Bonds at yields not less than the yields set forth on the cover page of this Official Statement. The

Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the initial public offering prices reflected on the cover page of this Official Statement.

CONTINUING DISCLOSURE

General

Pursuant to disclosure requirements set forth in Rule 15c12 (the "Rule") promulgated by the Securities and Exchange Commission ("SEC"), and the terms of the Continuing Disclosure Undertaking Agreement (the "Undertaking"), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State beginning with the fiscal year ending June 30, 2006, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2006, the State Annual Information (as hereinafter defined) will contain unaudited financial statements, and the audited financial statements will be filed in the same manner as the State Annual Information when they become available; and
2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2006, annual financial information other than the audited or unaudited financial statements described above in item 1, including operating data of the type provided in APPENDIX A – FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA;"

(The information described in items 1 and 2 is referred to as the "State Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- 1) principal and interest payment delinquencies;
- 2) non-payment related defaults;

- 3) unscheduled draws on debt service reserves reflecting financial difficulties;
- 4) unscheduled draws on credit enhancements reflecting financial difficulties;
- 5) substitution of credit or liquidity providers, or their failure to perform;
- 6) adverse tax opinions or events affecting the tax-exempt status of the security;
- 7) modifications to rights of security holders;
- 8) bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, the terms of which redemptions are set forth in detail in the final official statement);
- 9) defeasances;
- 10) release, substitution or sale of property securing repayment of the securities; and
- 11) rating changes.

The State or Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

Pursuant to a continuing disclosure agreement (the "Qualified Entity Continuing Disclosure Agreement"), the City, while the Bonds are outstanding, has agreed to provide to the Bond Bank the preceding event notices with respect to the Qualified Obligations if material, and in a timely manner, and the City has agreed to provide the following information while any of the Qualified Obligations are outstanding:

Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of the City as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, commencing with the calendar year ending December 31, 2006, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt from the State Board of Accounts; and

Financial Information in this Official Statement. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 210 days of each December 31, commencing with the calendar year ending December 31, 2006, operating data of the type provided under the following headings in Appendix B to this Official Statement (collectively, the "Annual Information"):

CITY OF EAST CHICAGO:

GENERAL ECONOMIC AND FINANCIAL INFORMATION

- Construction

SCHEDULE OF BONDED INDEBTEDNESS

**VALUATION, PROPERTY TAX RATE AND COLLECTION
INFORMATION**

- Property Tax Levies and Collections
- Assessed Value of Taxable Property
- Net Assessed Valuation
- Largest Property Taxpayers
- Tax Rates

FINANCIAL INFORMATION

- Receipts

Notwithstanding the foregoing, any information required to be provided by the State, the Bond Bank or the Qualified Entity to each NRMSIR and the State Depository as described above may, instead, be provided to DisclosureUSA, but only for so long as the conditions for the interpretation made by the SEC in the Response continue to be met. "DisclosureUSA" means the Internet-based electronic filing system created by the Municipal Advisory Council of Texas for the purpose of facilitating compliance by issuers and obligated persons (both as defined in the Rule) with continuing disclosure agreements entered into to satisfy the obligations of underwriters (as defined in the rule). "Response" means the interpretive letter, dated September 7, 2004, released by the Division of Market Regulation of the SEC regarding DisclosureUSA.

Remedy

The Undertaking and the Qualified Entity Continuing Disclosure Agreement (collectively, the "Undertakings") are solely for the benefit of the holders and Beneficial Owners of the Bonds. The sole remedy against the Bond Bank, the State or the City for any failure to carry out any provision of the Undertakings shall be for specific performance of the Bond Bank's, the State's or the City's disclosure obligations under the Undertakings. For the purposes of this section only, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including persons holding any Bonds through nominees, depositories or other intermediaries).

Failure on the part of the Bond Bank, the State or the City to honor its covenants under the Undertakings shall not constitute a breach or default under the Bonds, the Indenture, the Qualified Obligations or any other agreement to which the Bond Bank, the State, the Qualified Entity or the City is a party.

Modification of Undertakings

The Bond Bank, the State and the City may, from time to time, amend any provision of the Undertakings without the consent of the holders or Beneficial Owners of the Bonds if either: (a) (i) such amendment (if related to certain provisions of the Undertakings) is made in connection with a change in circumstances that arises from a change in legal requirements,

change in law or change in the identity, nature or status of the Bond Bank, the State or the City or type of business conducted by any parties, (ii) the respective Undertaking, as so amended, would have complied with the requirements of the Rule on the date of execution thereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders or Beneficial Owners of the Bonds, as determined by either (A) any person selected by the Bond Bank, the State or the City, as applicable, that is unaffiliated with the Bond Bank, the State or the City, as applicable, (such as the Trustee) or (B) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondholders at the time of such amendment; or (b) such amendment is permitted by the Rule.

Copies of the Undertakings are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State and the City have never failed to comply, in all material respects, with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The Bond Bank's offices are located at 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204, telephone (317) 233-0888.

All quotations from, and summaries and explanations of, the Act, the Indenture, the Lease, the Undertakings and the Agreement contained in this Official Statement do not purport to be complete and reference is made to each such document or instrument for full and complete statements of its provisions. The attached Appendices are an integral part of this Official Statement and must be read together with all of the foregoing statements. Copies in a reasonable quantity of the Act, the Indenture, the form of Agreement, the Lease, the Undertakings and the supplemental materials furnished to the Bond Bank by the Qualified Entity may be obtained upon request directed to the Bond Bank.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

INDIANA BOND BANK

By: /s/ Tim Berry

Chairperson Ex Officio
Treasurer of the State of Indiana

APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

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INTRODUCTION

This Financial and Economic Statement (this “Appendix A”) for the State of Indiana (the “State”) includes a description of the State’s economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2007. The information is compiled on behalf of the State by the State Budget Agency and the Indiana Finance Authority and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable.

Additional information may be obtained by contacting the Public Finance Director of the State of Indiana, One North Capitol Avenue, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Appendix A should be read in its entirety, together with any supplements.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any department may exercise any function of another department, unless expressly authorized to do so by the constitution.

Executive Department

The Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General and Superintendent of Public Instruction comprise the executive department of the State. All are elected for four-year terms.

The executive power of the State is vested in the Governor. The State constitution requires the Governor to take care that the laws are faithfully executed. The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), call special sessions of the General Assembly and veto any bill passed by the General Assembly (although any veto may be overridden if the bill is re-passed by a majority of all the members elected to each house of the General Assembly).

The Lieutenant Governor serves as the President of the State Senate. The Lieutenant Governor also serves as Secretary of Agriculture and Rural Development, is a member of the Indiana Housing and Community Development Authority, oversees the Office of Tourism Development, oversees the Energy Group and chairs the Counterterrorism and Security Council.

The Secretary of State administers State laws regulating the chartering of new businesses, the filing of commercial liens and the issuance of trademarks, notaries public and summonses. In addition, the Secretary of State regulates the State’s securities industry and oversees the State’s elections.

The Treasurer of State is responsible for the investment and safekeeping of State monies. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority. The Treasurer of State is a member of the State Board of Finance, Indiana Finance Authority, Indiana Housing and Community Development Authority, Indiana Wireless Enhanced 911 Advisory Board and Deferred Compensation Plan.

The Auditor of State maintains the State’s centralized financial accounting system for all State agencies. Responsibilities include accounting for State funds, overseeing and disbursing tax distributions to local governments, paying the State’s bills and paying the State’s employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is the administrator of the Deferred Compensation Plan, the secretary of the State Board of Finance and a member of the Board for Depositories.

The Attorney General is the chief legal officer of the State and is required to represent the State in lawsuits in which the State is a party. The Attorney General, upon request, gives legal opinions to the Governor, members of the General Assembly and officers of the State. In addition, the Attorney General investigates and prosecutes certain consumer complaints and Medicaid fraud.

The Superintendent of Public Instruction chairs the State Board of Education and directs the Department of Education.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Special sessions of the General Assembly may be convened by the Governor at any time. A special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The judicial power of the State is vested in a Supreme Court, a Court of Appeals, Circuit Courts and such other courts as the General Assembly may establish.

The Judicial Nominating Commission (comprised of the Chief Justice or his designee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a “yes” or “no” referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote serve a ten-year term, after which they are again subject to referendum.

FISCAL POLICIES

Fiscal Years

The State’s fiscal year is the twelve-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a “Fiscal Year”).

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions, except State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds. Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

General Fund. The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Special Revenue Funds include the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenue, a portion of individual income tax receipts and a portion of Gaming Revenue described below. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds. Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and

Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds. Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds: Enterprise Funds and Internal Service Funds.

Enterprise Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions.

Internal Service Funds. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government.

Fiduciary Funds. Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of Fiduciary Funds: Pension Trust Funds, Private-purpose Trust Funds and Agency Funds.

Pension Trust Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund.

Private-purpose Trust Funds. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund.

Agency Funds. Agency Funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President pro tempore of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests.

After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bill are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers the budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes a budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, (e) the requests for appropriations by State agencies and (f) the Budget Agency's recommended appropriations.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is

required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make “contingency appropriations” to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. The Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following: (a) necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made; (b) repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made; (c) emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made; or (d) supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if it is found necessary to accomplish the orderly administration of the agency or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the “Finance Board”) consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

Office of Management and Budget

In 2005, legislation was enacted that established the Office of Management and Budget, to direct the fiscal management and budget policy of the State.

The Director of the Office of Management and Budget is the chief financial officer of the State, and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of State Revenue, the Department of Local Government Finance and the Indiana Finance Authority, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government. The Director may also serve as the State Budget Director. Pursuant to Executive Order 05-02, the Office of Management and Budget oversees and coordinates the functions, responsibilities and duties of the Public Employees’ Retirement Fund (PERF), the Teachers’ Retirement Fund (TRF) and the State Board of Accounts to the fullest extent permitted by law.

The Division of Government Efficiency and Financial Planning of the Office of Management and Budget conducts operational and procedural audits of State government, performs financial planning, designs and implements efficiency projects, and carries out such other responsibilities as may be designated by the Director.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund and more than 60 other funds. The investments in which the Treasurer of State may invest State funds are limited to: (a) securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise; (b) obligations issued by (i) agencies or instrumentalities of the United States government, (ii) federal government sponsored enterprises or (iii) the Indiana Bond Bank that are secured by tax anticipation time warrants or notes that (A) are issued by a political subdivision of the State and (B) have a maturity date not later than the end of the calendar year following the year of issuance; (c) certain money market mutual funds, the portfolio of which is limited to (i) direct obligations of the United States, (ii) obligations issued by any federal agency, federal instrumentality or federal government sponsored enterprise or (iii) repurchase agreements fully collateralized by obligations described in (i) or (ii); (d) deposit accounts of certain designated depositories; or (e) certain other securities. Investments may be made only in securities having a maturity of up to two years, except that up to 25% of the total portfolio of funds invested by the Treasurer of State may be invested in securities having a maturity of up to five years.

Audits

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

2005 Financial Report

The Indiana Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2005 (the "2005 Financial Report"), contains certain financial information about the State, including the financial statements of the State as of and for the Fiscal Year ended June 30, 2005, as set forth therein. The 2005 Financial Report was previously provided to each then nationally recognized municipal securities information repository (each then nationally reorganized municipal securities information repository, a "NRMSIR"), and is included in this Appendix A by reference.

A copy of the 2005 Financial Report may be obtained from any NRMSIR. In addition, the 2005 Financial Report may be found at: <http://www.in.gov/idfa/pfo>.

The 2005 Financial Report speaks only as of its date. The inclusion of the 2005 Financial Report in this Appendix A does not imply that there has been no change in the information therein since the date thereof.

STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenue

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund

and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as “State Operating Revenue” or “Operating Revenue.” Operating Revenue is defined as the total of General Fund and PTR Fund revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with “DSH revenue” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. *See* “Fund Balances—Combined General and PTR Fund.”

General Fund and PTR Fund Revenue Sources

Sales and use taxes, corporate and individual income taxes and wagering taxes are the three primary sources of State Operating Revenue. Table 1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue by source.

Sales and Use Taxes. The 2002 General Assembly, meeting in Special Session, increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on the sale and rental of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

Adjusted Gross Income Tax. The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

Utilities Receipts Tax. The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund and PTR Fund.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed in 2002 changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a

graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25 million and \$50 million, 25% of receipts between \$50 million and \$75 million, 30% of receipts between \$75 million and \$150 million, and 35% of adjusted gross receipts in excess of \$150 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenue. Other revenue ("Other Revenue") is derived from cigarette taxes, alcoholic beverage taxes, inheritance taxes, insurance taxes, interest earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3 percentage points.

Revenue History

Annual percentage changes for each component of Operating Revenue is reflected in Table 1. The table also includes actual revenue for prior Fiscal Years as well as projected revenue for Fiscal Years 2006 and 2007.

Table 1
State Operating Revenue
(Millions of Dollars)

	FY 2001 ⁽¹⁾	FY 2002 ⁽¹⁾	FY 2003 ⁽¹⁾	FY 2004 ⁽¹⁾	FY 2005 ⁽¹⁾	FY 2006 ⁽²⁾	FY 2007 ⁽²⁾
Sales Tax	3,686.8	3,761.4	4,172.4	4,721.0	4,960.4	5,174.1	5,472.1
Change from Prior Year		2.0%	10.9%	13.1%	5.1%	4.3%	5.8%
Individual Income	3,779.80	3,540.8	3,644.2	3,807.9	4,213.2	4,208.1	4,522.5
Change from Prior Year		-6.3%	2.9%	4.5%	10.6%	-0.1%	7.5%
Corporate Income	855.3	709.4	729.2	644.7	824.8	810.7	803.8
Change from Prior Year		-17.1%	2.8%	-11.6%	27.9%	-1.7%	-0.9%
Wagering Tax	N/A	N/A	430.7	601.5	584.7	596.7	636.3
Change from Prior Year		N/A	N/A	39.7%	-2.8%	2.0%	6.6%
Other ⁽³⁾	730.1	697.2	903.6	844.8	853.4	923.1	914.2
Change from Prior Year		-4.5%	29.6%	-6.5%	1.0%	8.2%	-1.0%
Total	9,052.0	8,708.9	9,880.1	10,619.9	11,436.5	11,712.7	12,348.9
Change from Prior Year		-3.8%	13.4%	7.5%	7.7%	2.4%	5.4%

⁽¹⁾ Actual, but unaudited, Operating Revenue.

⁽²⁾ Revenues are those projected by the Technical Forecast Committee on December 14, 2005.

⁽³⁾ See "General Fund and PTR Fund Revenue Sources—Other Operating Revenue."

Source: State Budget Agency

Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of \$250 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming

taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250 million is to remain in the PTR Fund. For a description of wagering taxes, *see* “General Fund and PTR Fund Revenue Sources—Wagering Tax.”

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities—\$30 million goes to the Teachers’ Retirement Fund and \$30 million goes to the Pension Stabilization Fund. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million were appropriated for Fiscal Year 2005.

For Fiscal Year 2005, Gaming Revenue totaling \$780.8 million was collected by the State from the following sources:

Riverboat gaming	\$584.7 million
Hoosier Lottery	189.7 million
Charity gaming	4.0 million
Horse racing	2.3 million

Source: State Budget Agency

Operating Expenditures

The General Assembly appropriated \$24,321.1 million of General Fund and PTR Fund revenue for Fiscal Years 2006 and 2007. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State’s five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and correction. These five categories constitute approximately 84.0% of all appropriations for Fiscal Years 2006 and 2007. Table 2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 2001 through 2007.

Table 2
Expenditures and Appropriations
(Millions of Dollars)

	FY 2001 ⁽¹⁾	FY 2002 ⁽¹⁾	FY 2003 ⁽¹⁾	FY 2004 ⁽¹⁾	FY 2005 ⁽²⁾	FY 2006 ⁽³⁾	FY 2007 ⁽³⁾
Local School Aid	4,172.8	3,889.5	4,141.1	4,356.3	4,441.7	4,496.1	4,523.4
Change from Prior Year		-6.8%	6.5%	5.2%	2.0%	1.2%	0.6%
Property Tax Relief	1,200.9	1,179.8	1,222.9	2,096.8	2,107.6	2,214.8	2,214.8
Change from Prior Year		-1.8%	3.7%	71.5%	0.5%	5.1%	0.0%
Higher Education	1,331.3	1,294.7	1,404.1	1,470.5	1,520.4	1,543.5	1,588.3
Change from Prior Year		-2.7%	8.4%	4.7%	3.4%	1.5%	2.9%
Medicaid	1,110.9	1,138.0	1,167.2	1,243.7	1,383.4	1,455.2	1,525.1
Change from Prior Year		2.4%	2.6%	6.6%	11.2%	5.2%	4.8%
Correction	547.2	582.1	594.0	619.4	608.1	623.8	624.1
Change from Prior Year		6.4%	2.0%	4.3%	-1.8%	2.6%	0.0%
Other	1,635.5	1,592.9	1,634.2	1,613.0	1,574.7	1,742.9	1,769.0
Change from Prior Year		-2.6%	2.6%	-1.3%	-2.4%	10.7%	1.5%
Total	9,998.6	9,677.0	10,163.5	11,399.7	11,635.9	12,076.3	12,244.7
Change from Prior Year		-3.2%	5.0%	12.2%	2.1%	3.8%	1.4%

⁽¹⁾ Actual, but unaudited, expenditures.

⁽²⁾ Estimated, but unaudited, expenditures.

⁽³⁾ Appropriations are those authorized by the 2005 General Assembly.

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State now provides approximately 85% of the school corporations' general fund budgets. See "Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis will increase by an average of 1.2% for Fiscal Year 2006 and will increase by 0.6% for Fiscal Year 2007. Local school aid appropriations for Fiscal Year 2006 from the Combined General and PTR Fund will total \$4,496.1 million, and for Fiscal Year 2007 will total \$4,523.4 million. See "Financial Results of Operations."

Property Tax Relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has in recent years reduced local property taxes by 14% to 15%, and the Homestead Credit, which in the past reduced residential property taxes by 10%. Property tax relief is payable from the PTR Fund. Property tax relief appropriations for Fiscal Year 2006 will total \$2,214.8 million, an increase of 5.1% from Fiscal Year 2005. Due to actions by the 2005 Indiana General Assembly, property tax relief appropriations will remain substantially unchanged in Fiscal Year 2007. Legislation passed in special legislative session in 2002 provides for a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. See "Local School Aid."

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana and Vincennes University. Higher education appropriations for Fiscal Year 2006 total \$1,543.5 million, an increase of 1.5% from Fiscal Year 2005. Higher education appropriations for Fiscal Year 2007 total \$1,588.3 million, an increase of 2.9% from Fiscal Year 2006. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. See "Financial Results of Operations."

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes outstanding as of June 30, 2005, for each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations for Fiscal Years 2006 and 2007 are shown below.

Table 3
Schedule of Fee Replacement Debt

	Estimated Amount of Debt Outstanding June 30, 2005	Fiscal Year 2006 Fee Replacement Expenditures	Fiscal Year 2007 Fee Replacement Appropriations
Ball State University	\$ 87,220,000	\$ 7,824,168	\$ 10,808,931
Indiana University ⁽¹⁾	412,514,771	55,201,058	64,071,550
Indiana State University	58,272,709	6,663,721	7,282,616
Ivy Tech Community College	164,545,000	11,757,465	13,119,374
Purdue University ⁽²⁾	196,245,800	22,872,273	26,102,885
University of Southern Indiana	81,253,285	5,855,701	5,901,601
Vincennes University	29,942,817	3,226,033	3,861,825
Total	<u>\$1,029,994,382</u>	<u>\$113,400,419</u>	<u>\$131,148,782</u>

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Medicaid. The fourth largest expenditure from the General Fund is Medicaid. It is a state/federal shared fiscal responsibility with the State General Fund supporting 30.4% of the total program and federal funds comprising 68.1%, in Fiscal Year 2005. The balance or 1.5% is paid through transferred and dedicated funds. In Fiscal Year 2005 the state spent \$1,383.4 million for Medicaid from the General Fund. This was an increase of 11.2% over the Fiscal Year 2004 expenditure of \$1,243.8 million. The State used Medicaid balances retained from Fiscal Year 2004, in the amount of \$117.0 million, to fund the Fiscal Year 2005 increase. For Fiscal Years 2006 and 2007, the State has appropriated \$1,455.2 million and \$1,525.2 million, respectively. Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment increased from 740,814 people in Fiscal Year 2002 to 838,136 people in Fiscal Year 2005, or at an average annual rate of 4.2%. Enrollment is expected to grow to 920,807 in Fiscal Year 2007.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. Estimated expenditures for Correction for Fiscal Year 2005 are \$608.1 million. Correction appropriations for Fiscal Year 2006 total \$623.8 million, an increase of 2.6% from Fiscal Year 2005. Correction appropriations for Fiscal Year 2007 total \$624.1 million, an increase of 0.0% from Fiscal Year 2006.

Population is the most significant driver of Correction expenditures. Correctional population steadily increased from 21,540 in Fiscal Year 2001 to a projected 27,789 in Fiscal Year 2007.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. Other Categories appropriations for Fiscal Year 2006 from the General Fund total \$1,742.9 million, an increase of 10.7% from Fiscal Year 2005, the increase resulting primarily from capital projects reversions due to the State's austerity measures from earlier biennia. Other Categories appropriations for Fiscal Year 2007 from the General Fund total \$1,769.0 million, an increase of 1.5% from Fiscal Year 2006.

Expenditure Limits. In 2002, the General Assembly enacted a law that provides that the maximum annual percentage change in State government expenditures must be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from

the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income and 6%. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The Budget Agency computed the spending growth quotient prior to the passage of the new biennial budget for Fiscal Years 2006 and 2007. The spending cap limits expenditure increases to 3.9% per annum for each of Fiscal Year 2006 and Fiscal Year 2007, and the State's appropriations are below the allowable limits.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. See "Financial Results of Operations."

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. See Table 4 for Rainy Day Fund balances.

Tuition Reserve. The Tuition Reserve is a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. See Table 4 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. See Table 4 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenue from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (a) replace local property tax levies ("PTR Credits"), which were reduced through PTR Credits under the same statute that created the PTR Fund, and (b) fund local school aid. To the extent the

PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes described in this Appendix A as a single, combined fund.

Financial Results of Operations

The State closed Fiscal Year 2005 with combined balances of \$749.8 million in the General and PTR funds, which was 6.5% of that Fiscal Year's operating revenue. This combined balance includes a General Fund balance of \$118.8 million, a Tuition Reserve balance of \$290.5 million, and a Rainy Day Fund balance of \$316.5 million. It also includes \$24.0 million in a re-established Medicaid Reserve. The State also transferred \$87.2 million from Fiscal Year 2005 revenues into its Rainy Day Fund as required by the statutory formula. Combined balances for Fiscal Year 2005 increased by \$217 million over the Fiscal Year 2004 level which was only 5.0% of that year's operating revenue.

However, in order to achieve that balance, the State used \$245.4 million in transferred dedicated fund balances, used \$190.0 million in Pension Stabilization Fund monies and realized \$222.0 million in reversions. This is the last year that any of these mechanisms is expected to be used within the forecast horizon.

Revenue Forecast for Fiscal Years 2006 and 2007

The Technical Forecast Committee (the "Forecast Committee") presented a forecast of State revenue for Fiscal Years 2006 and 2007 to the State Budget Committee on December 14, 2005.

Under this forecast, State revenue will increase by \$276.2 million (or 2.4%) over Fiscal Year 2005 actual revenues in Fiscal Year 2006 and \$636.2 million (or 5.4%) in Fiscal Year 2007 over the Fiscal Year 2006 forecast.

Forecast revenue follows:

	FY 2006	
	(in millions)	
Sales and Use	\$5,174.1	4.3% growth over FY 2005
Individual Income	4,208.1	0.1% decrease from FY 2005
Corporate Income	810.7	1.7% decrease from FY 2005
Wagering	596.7	2.0% growth over FY 2005
Other	923.1	8.2% growth over FY 2005
	FY 2007	
	(in millions)	
Sales and Use	\$5,472.1	5.8% growth over FY 2006
Individual Income	4,522.5	7.5% growth over FY 2006
Corporate Income	803.8	0.9% decrease from FY 2006
Wagering	636.3	6.6% growth over FY 2006
Other	914.2	1.0% decrease from FY 2006

Appropriations for Fiscal Years 2006 and 2007

The General Assembly-passed biennial budget for Fiscal Years 2006 and 2007 appropriates \$24,321.1 million the combined Fiscal Years. Appropriations for Fiscal Year 2006 will increase 3.8% over Fiscal Year 2005 expenditures and for Fiscal Year 2007 will grow 1.4% over Fiscal Year 2006. The actions of the 2005 General Assembly, together with the fiscal recommendations of the Governor, are bringing forecast State revenues and budgeted expenditures into balance over the period of this biennium. By the end of Fiscal Year 2007, the State is projected to have a \$973.7 million combined balance which is estimated to be 7.8% of State operating revenue in that year.

Combined Balance Statements

Table 4 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2005 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years. Forecasted revenue was developed by the Technical Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2006 and 2007.

Table 4
General Fund and Property Tax Replacement Fund
Combined Statement of Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	Actual FY2003	Actual FY2004	Actual FY2005	Estimated FY2006 ⁽¹⁾	Estimated FY2007 ⁽¹⁾
Resources							
Working Balance on July 1	832.6	18.6	0.0	136.6	0.2	118.8	65.4
Current Year Resources							
Forecast Revenue	9,052.0	8,708.9	9,880.1	10,619.9	11,436.4	11,712.7	12,348.9
DSH Revenue	70.9	87.0	65.0	64.2	52.0	60.2	61.6
Tax Amnesty ⁽²⁾	-	-	-	-	-	158.7	-
Quality Assessment Fee	-	-	-	-	-	67.1	1.9
Rainy Day Fund Interest and Repayment of Loans	-	-	-	-	-	11.5	14.6
Other Revenue Sources of Transfers In							
Jobs & Growth Tax Relief Reconciliation Act of 2003 (including Medicaid)	-	-	103.4	234.3	-	-	-
Transfer from Lottery & Gaming Surplus Acct (BIF)	-	200.0	175.0	-	-	-	-
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	222.0	320.2	245.4	-	1.2
Transfer from Tuition Reserve	-	-	-	14.5	-	-	-
Transfer From (To) Rainy Day Fund	46.3	277.1	-	44.3	(87.2)	-	(100.0)
Total Current Year Resources	9,272.6	9,769.3	10,445.5	11,297.4	11,646.6	12,010.2	12,328.2
Total Resources	10,105.2	9,787.9	10,445.5	11,434.0	11,646.8	12,129.0	12,393.6
Uses: Appropriations, Expenditures and Reversions							
Appropriations							
Budgeted Appropriations	10,159.3	10,211.9	11,000.1	11,280.8	11,522.0	12,076.4	12,244.8
Adjustments to Appropriations ⁽³⁾	(15.7)	93.1	22.7	47.5	(4.1)	(7.3)	(7.3)
Deficiency Appropriations	66.8	0.1	19.4	-	-	-	-
Appropriations Transfer (FY 2000 capital appropriations)	(88.3)	-	-	-	-	-	-
Medicaid Shortfall	58.5	-	-	-	117.0	-	-
Higher Education, HEA 1196 – 2002	-	-	(29.0)	-	-	-	-
K-12 Education, HEA 1196 – 2002	-	-	(119.1)	-	-	-	-
Teachers' Retirement Fund	-	-	-	190.0	190.0	-	1.2
Tuition Support Deficiency	-	-	-	-	20.0	-	-
Total Appropriations	10,180.6	10,305.1	10,894.0	11,518.3	11,844.9	12,069.1	12,238.7
Other Expenditures and Transfers							
Transfer to Lottery and Gaming Surplus Acct (BIF) (MVET)	-	-	131.8	-	-	-	-
Transfer to Tuition Reserve	-	-	40.0	-	-	-	-
Undistributed PTRC and Homestead Credit	-	-	(101.1)	-	-	-	-
Tuition Support Adjustments	-	-	-	(7.1)	-	-	-
PTRC and Homestead Credit Adjustments	-	-	-	(18.4)	(101.0)	-	-
Judgments and Settlements ⁽⁴⁾	7.0	3.8	6.2	5.4	6.1	8.0	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	10,970.9	11,498.2	11,750.0	12,077.1	12,246.7
Payment Delays							
Higher Education Allotment	-	(94.2)	(2.2)	(2.2)	(3.9)	-	-
Tuition Support Distribution	-	(279.5)	(20.0)	(0.6)	-	-	-
Property Tax Replacement Credit	-	-	(314.5)	-	-	-	-
Reversions⁽⁵⁾	(102.9)	(145.1)	(323.4)	(63.4)	(218.1)	(25.0)	(84.3)
Total Net Uses	10,084.7	9,790.1	10,310.7	11,431.9	11,528.0	12,052.1	12,162.4
Auditor's Adjustment	1.9	(2.2)	(1.8)	1.9	-	-	-
General Fund Reserve Balance at June 30	18.6	0.0	136.6	0.2	118.8	65.4	216.6
Reserved Balances							
Medicaid Reserve	100.0	-	-	-	24.0	24.0	24.0
Tuition Reserve	265.0	265.0	305.0	290.5	290.5	290.5	290.5
Rainy Day Fund	526.0 ⁽⁶⁾	269.2 ⁽⁶⁾	278.5 ⁽⁶⁾	242.2 ⁽⁶⁾	316.5 ⁽⁷⁾	328.0 ⁽⁷⁾	442.6 ⁽⁷⁾
Total Combined Balances	909.6	534.2	720.1	532.8	749.8	707.9	973.7
Payment Delay Liability	-	(373.8)	(710.5)	(713.3)	(726.8)	(726.8)	(726.8)
Combined Balance as a Percent of Operating Revenue	10.0%	6.1%	7.2%	5.0%	6.5%	6.0%	7.8%

Totals may not add as a result of rounding.

- (1) Revenues are those projected by the Technical Forecast Committee on December 14, 2005; appropriations are those authorized by the 2005 General Assembly.
- (2) Collections as of November 30, 2005, net of an estimated \$12 million in expenses.
- (3) Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total.
- (4) Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* "LITIGATION."
- (5) \$59.3 million of reversions in FY2007 represent capital reversions, previously reported as reverting in FY2005.
- (6) Includes loans to local governments authorized by the General Assembly. The loans are illiquid.
- (7) Net of outstanding loans to local governments.

Source: State Budget Agency

Toll Road Lease

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Indiana Toll Road to a private entity to operate for a term not to exceed 75 years. The revenues from the lease, \$3.8 billion, will be used by the State to fund nearly 200 statewide transportation and economic growth projects throughout the State.

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "Obligations Payable from Possible State Appropriations—Authorized but Unissued Debt."

In 2005, the General Assembly enacted legislation establishing the Indiana Finance Authority, a body politic and corporate, separate from the State. The Indiana Finance Authority is required, after consulting with the Treasurer of State, the Indiana Bond Bank, the Budget Agency and the Indiana Commission for Higher Education, to establish and periodically update a State debt management plan.

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the Indiana Finance Authority and the Indiana Bond Bank, each of which is a body politic and corporate, separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance various capital projects. Certain agencies of the State, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the State), have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bonds issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease

agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

Indiana Finance Authority. Before 2005, there had been numerous bodies corporate and politic of the State, with separate decision making and borrowing authority, that issued bonds and otherwise accessed the financial markets. On May 15, 2005, to provide economic efficiencies and management synergies and to enable the State to communicate, with a single voice, with the various participants in the financial markets, the Indiana Development Finance Authority, the State Office Building Commission, the Indiana Transportation Finance Authority and the Recreational Development Commission were consolidated into the Indiana Finance Authority. As the successor agency, the Indiana Finance Authority has assumed responsibility for the financing of certain buildings, highways, aviation facilities and recreation facilities.

For a description of other powers and responsibilities of the Indiana Finance Authority, including its authority to issue other debt, *see* “Contingent Obligations—Toll Road” and “—Economic Development” and Table 8.

Buildings. The Indiana Finance Authority is authorized (and its predecessor, the State Office Building Commission, had been authorized) to issue revenue bonds, payable from lease rentals under use and occupancy agreements with various State agencies, to finance or refinance the cost of acquiring, constructing or equipping buildings, structures, improvements or parking areas for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing buildings, structures or improvements for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing buildings, structures or improvements for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing buildings, structures or improvements for the care, maintenance or treatment of adults or children with mental illness, developmental disabilities, addictions or other medical or rehabilitative needs; or (f) providing the infrastructure of a State-wide wireless public safety communications system. Lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. *See* “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Buildings.”

The Indiana Finance Authority also provides (and its predecessor, the State Office Building Commission, had provided) short-term, or construction, financing for authorized projects through the issuance of commercial paper, in an aggregate amount not to exceed \$150 million, payable from proceeds of its revenue bonds.

Highways. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from lease rentals under lease agreements with the Indiana Department of Transportation, to finance or refinance the cost of construction, acquisition, reconstruction, improvement or extension of the State’s highways, bridges, streets, roads or other public ways. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Highways.”

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue grant anticipation revenue bonds to finance highway projects eligible for federal highway revenues.

Aviation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance improvements related to airports or aviation related property or facilities.

Pursuant to this authority, the Indiana Transportation Finance Authority issued its revenue bonds to finance and refinance (a) improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport and (b) an aviation technology center at the Indianapolis International Airport. The bonds are payable from lease rentals under lease agreements with the Indianapolis Airport Authority. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Aviation Facilities.”

Recreation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Recreational Development Commission, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance the costs of the acquisition, construction, renovation, improvement or equipping of facilities for the operation of public parks.

Pursuant to this authority, the Recreational Development Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various lodging and other facilities for public parks in the State. The bonds are payable from lease rentals under use and occupancy agreements with the State's Department of Natural Resources. The lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. See "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Recreation Facilities."

Bond Bank. The Indiana Bond Bank issued its revenue bonds, payable from possible State appropriations, to finance or refinance certain State interests or initiatives, including the State's Animal Disease and Diagnostic Laboratory ("ADDL") at Purdue University, West Lafayette, and the Columbus Learning Center ("CLC"), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. See "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Bond Bank."

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "Contingent Obligations—Indiana Bond Bank" and Table 8.

Schedule of Long Term Debt. Table 5 lists, by type of financing, long-term debt that is subject to possible State appropriations as of June 30, 2005. See "Debt Issued in Fiscal Year 2006" and "Authorized but Unissued Debt."

Table 5
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations

Type/Series	Original Par Amount	Ending Balance 6/30/04	(Redeemed)/ Issued	Ending Balance 6/30/05
Buildings				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 8,608,640	\$ (531,024)	\$ 8,077,616
Series 2003A	26,735,000	26,735,000	(625,000)	26,110,000
Subtotal	\$ 53,404,824	\$ 35,343,640	\$ (1,156,024)	\$ 34,187,616
Government Center North				
Series 1990B	\$ 77,123,542	\$ 26,702,370	\$ (1,646,892)	\$ 25,055,478
Series 2003B	73,205,000	73,205,000	0	73,205,000
Subtotal	\$ 150,328,542	\$ 99,907,370	\$ (1,646,892)	\$ 98,260,478
Government Center South				
Series 1990C	\$ 18,063,800	\$ 5,828,000	\$ (358,800)	\$ 5,469,200
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 2000B	43,400,000	29,200,000	(7,100,000)	22,100,000
Series 2003C	7,835,000	7,835,000	(55,000)	7,780,000
Subtotal	\$ 179,973,800	\$ 96,573,000	\$ (7,513,800)	\$ 89,059,200
Other Facilities				
Series 1995A	\$ 54,025,000	\$ 1,065,000	\$ (520,000)	\$ 545,000
Series 1995B	47,975,000	22,420,000	(1,520,000)	20,900,000
Series 1998A	93,020,000	81,850,000	(4,645,000)	77,205,000
Series 1999A	96,785,000	36,360,000	(3,090,000)	33,270,000
Series 2000A	44,800,000	39,900,000	(1,700,000)	38,200,000
Series 2001A	66,600,000	64,800,000	(1,900,000)	62,900,000
Series 2002A	128,110,000	60,715,000	0	60,715,000
Series 2003A	83,530,000	48,025,000	(940,000)	47,085,000
Series 2003B	31,930,000	31,930,000	0	31,930,000
Series 2003C	55,075,000	55,075,000	0	55,075,000
Series 2003D	20,475,000	20,475,000	0	20,475,000
Series 2004A	46,180,000	46,180,000	0	46,180,000
Series 2004B	61,890,000	61,890,000	0	61,890,000
Series 2004C	33,950,000	33,950,000	0	33,950,000
Series 2004D	-	-	33,995,000	33,995,000
Series 2004E	-	-	57,005,000	57,005,000
Subtotal	\$ 864,345,000	\$ 604,635,000	\$ 76,685,000	\$ 681,320,000
TOTAL BUILDINGS	\$ 1,248,052,166	\$ 836,459,010	\$ 66,368,284	\$ 902,827,294
Highways				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 31,181,268	\$ (1,414,463)	\$ 29,766,805
Series 1992A	74,035,000	35,285,000	0	35,285,000
Series 1993A	193,531,298	124,231,298	(8,065,000)	116,166,298
Series 1996B	27,110,000	20,390,000	(2,975,000)	17,415,000
Series 1998A	175,360,000	165,615,000	(45,520,000)	120,095,000
Series 2000	269,535,000	264,535,000	(161,680,000)	102,855,000
Series 2003A	431,585,000	431,585,000	(104,215,000)	327,370,000
Series 2004A	320,550,000	320,550,000	0	320,550,000
Series 2004B	-	-	147,345,000	147,345,000
Series 2004C	-	-	146,080,000	146,080,000
TOTAL HIGHWAYS	\$ 1,564,204,689	\$ 1,393,372,566	\$ (30,444,463)	\$ 1,362,928,103

Aviation Facilities				
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 33,015,000	\$ (33,015,000)	\$ 0
Series 1995A	29,720,000	24,665,000	(24,665,000)	0
Series 1996A	137,790,000	135,415,000	(135,415,000)	0
Series 2004A	-	-	56,025,000	56,025,000
Series 2004B	-	-	79,825,000	79,825,000
Series 2004C	-	-	68,700,000	68,700,000
Subtotal	\$ 368,830,000	\$ 193,095,000	\$ 11,455,000	\$ 204,550,000
Aviation Technology Bonds				
Series 2002	\$ 10,095,000	\$ 9,830,000	\$ (545,000)	\$ 9,285,000
Subtotal	\$ 10,095,000	\$ 9,830,000	\$ (545,000)	\$ 9,285,000
TOTAL AVIATION FACILITIES	\$ 378,925,000	\$ 202,925,000	\$ 10,910,000	\$ 213,835,000
Recreation Facilities				
Series 1994	\$ 19,285,000	\$ 7,605,000	\$ (7,605,000)	\$ 0
Series 1997	6,600,000	5,320,000	(245,000)	5,075,000
Series 2002	14,400,000	14,400,000	0	14,400,000
Series 2004	-	-	\$ 12,780,000	12,780,000
Subtotal	\$ 40,285,000	\$ 27,325,000	\$ 4,930,000	\$ 32,255,000
TOTAL RECREATION FACILITIES	\$ 40,285,000	\$ 27,325,000	\$ 4,930,000	\$ 32,255,000
Bond Bank				
Series 1998B (ADDL)	\$ 10,830,000	\$ 6,560,000	\$ (755,000)	\$ 5,805,000
Series 2003D (CLC)	27,515,000	27,515,000	0	27,515,000
Subtotal	\$ 38,345,000	\$ 34,075,000	\$ (755,000)	\$ 33,320,000
TOTAL BOND BANK	\$ 38,345,000	\$ 34,075,000	\$ (755,000)	\$ 33,320,000
TOTAL ALL BONDS	\$ 3,269,811,855	\$ 2,494,156,576	\$ 51,008,821	\$ 2,545,165,397

Source: State Budget Agency (as of June 30, 2005)

Scheduled Principal and Interest Payments. Table 6 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2005. See “Debt Issued in Fiscal Year 2006” and “Authorized but Unissued Debt.”

Table 6
Scheduled Principal and Interest Payments
Obligations Payable from Possible State Appropriations

Issuer/Series	FY 2006	FY 2007	FY 2008	FY2009	Thereafter
Buildings					
Government Center Parking Facilities					
Series 1990A	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 8,921,475
Series 2003A	3,704,525	3,702,775	3,696,763	3,696,013	15,863,794
Subtotal	\$ 5,652,575	\$ 5,650,825	\$ 5,644,813	\$ 5,644,063	\$ 24,785,269
Government Center North					
Series 1990B	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 27,674,160
Series 2003B	8,615,990	8,633,928	8,580,178	8,567,178	59,688,789
Subtotal	\$ 14,657,870	\$ 14,675,808	\$ 14,622,058	\$ 14,609,058	\$ 87,362,949
Government Center South					
Series 1990C	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 6,043,795
Series 1990D	3,705,990	10,976,205	10,953,868	10,934,615	32,681,918
Series 2000B ⁽¹⁾	8,319,000	976,500	1,065,000	1,053,000	16,755,000
Series 2003C	877,813	877,625	875,488	876,288	6,087,907
Subtotal	\$ 14,219,893	\$ 14,147,420	\$ 14,211,446	\$ 14,180,993	\$ 61,568,620
Other Facilities					
Series 1995B	\$ 2,835,035	\$ 1,206,875	\$ 1,206,875	\$ 1,206,875	\$ 24,519,688
Series 1998A	8,554,491	8,530,004	8,538,279	8,524,424	67,998,865
Series 1999A	3,476,138	5,398,750	5,393,594	5,392,457	27,057,182
Series 2000A ⁽¹⁾	3,993,000	3,979,500	3,865,500	3,846,000	41,601,000
Series 2001A ⁽¹⁾	5,662,877	5,637,321	5,706,425	5,650,670	78,473,281
Series 2002A	2,978,511	7,622,418	7,618,499	7,601,597	62,536,610
Series 2003A	2,285,115	5,095,203	5,065,465	5,064,090	52,747,858
Series 2003B	1,385,858	2,555,584	2,555,123	2,551,260	40,500,095
Series 2003C ⁽¹⁾	1,101,500	3,243,306	3,304,500	3,304,500	84,907,750
Series 2003D ⁽¹⁾	409,500	1,424,000	3,155,000	3,107,750	25,256,750
Series 2004A	2,416,425	2,470,875	2,479,675	2,478,375	58,686,788
Series 2004B	3,249,225	3,249,225	3,249,225	3,249,225	88,612,500
Series 2004C	1,779,285	1,779,285	1,779,285	1,779,285	49,481,523
Series 2004D	1,576,913	1,576,913	1,576,913	2,665,338	50,175,583
Series 2004E	2,694,145	2,694,145	2,694,145	4,501,620	84,709,881
Subtotal	\$ 44,398,018	\$ 56,463,404	\$ 58,188,503	\$ 60,923,466	\$ 837,265,354
TOTAL BUILDINGS	\$ 78,928,356	\$ 90,937,457	\$ 92,666,820	\$ 95,357,580	\$ 1,010,982,192
Highways					
Highway Revenue Bonds					
Series 1990A	\$ 4,255,288	\$ 4,095,288	\$ 3,940,288	\$ 3,490,288	\$ 34,419,625
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	46,712,230
Series 1993A	12,608,425	12,608,850	12,620,300	12,573,200	152,581,913
Series 1996B	3,961,450	3,958,550	3,947,125	3,948,375	3,930,875
Series 1998A	10,591,803	16,789,423	16,903,123	17,019,073	114,037,469
Series 2000	5,557,400	5,557,400	5,557,400	5,557,400	180,231,324
Series 2003A	24,316,809	26,370,509	26,381,671	26,380,696	464,813,328
Series 2004A	16,752,103	16,752,103	16,752,103	16,752,103	612,691,885
Series 2004B	8,192,175	8,192,175	8,192,175	8,192,175	224,092,888
Series 2004C	7,858,988	7,858,988	7,858,988	7,858,988	225,629,994
TOTAL HIGHWAYS	\$ 96,493,821	\$ 104,582,666	\$ 104,552,553	\$ 104,171,678	\$ 2,059,141,531
Aviation Facilities					
Airport Facilities Bonds					
Series 2004A	\$ 3,361,500	\$ 3,361,500	\$ 3,361,500	\$ 3,361,500	\$ 77,501,250
Series 2004B	4,789,500	4,789,500	4,789,500	4,789,500	110,407,750
Series 2004C	4,122,000	8,002,000	16,783,000	16,567,000	40,465,500
Subtotal	\$ 12,273,000	\$ 16,153,000	\$ 24,934,000	\$ 24,718,000	\$ 228,374,500
Aviation Technology Bonds					
Series 2002	\$ 955,495	\$ 952,614	\$ 952,233	\$ 954,728	\$ 8,584,957
Subtotal	\$ 955,495	\$ 952,614	\$ 952,233	\$ 954,728	\$ 8,584,957
TOTAL AVIATION FACILITIES	\$ 13,228,495	\$ 17,105,614	\$ 25,886,233	\$ 25,672,728	\$ 236,959,457

Recreation Facilities					
Series 1997	\$ 521,616	\$ 523,555	\$ 519,805	\$ 520,430	\$ 5,177,960
Series 2002	887,400	1,333,118	1,396,105	1,454,545	14,750,988
Series 2004	502,439	502,439	863,561	1,116,808	15,680,994
Subtotal	\$ 1,911,455	\$ 2,359,112	\$ 2,779,471	\$ 3,091,783	\$ 35,609,942
TOTAL RECREATION FACILITIES	\$ 1,911,455	\$ 2,359,112	\$ 2,779,471	\$ 3,091,783	\$ 35,609,942
Bond Bank					
Series 1998B (ADDL)	\$ 1,044,740	\$ 1,039,845	\$ 1,042,698	\$ 1,043,548	\$ 2,608,840
Series 2003D (CLC)	1,306,450	1,306,450	1,306,450	1,306,450	40,187,407
Subtotal	\$ 2,351,190	\$ 2,346,295	\$ 2,349,148	\$ 2,349,998	\$ 42,796,247
TOTAL BOND BANK	\$ 2,351,190	\$ 2,346,295	\$ 2,349,148	\$ 2,349,998	\$ 42,796,247
TOTAL ALL BONDS	\$ 192,913,317	\$ 217,331,144	\$ 228,234,225	\$ 230,643,767	\$ 3,385,489,369

(1) Debt service on variable rate debt is determined by assuming an interest rate of 6%.

Source: State Budget Agency (as of June 30, 2005)

Debt Ratios. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past ten years are reflected in Table 7. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table 7
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

Fiscal Year	Population	Personal Income ⁽¹⁾	Outstanding Debt Subject to Appropriation ⁽²⁾	Debt/Capita ⁽³⁾	Debt/Income ⁽⁴⁾
1995	5,791,819	\$125,269	\$1,036,963	\$179	1.0%
1996	5,834,908	132,103	1,119,538	192	0.9
1997	5,872,370	138,794	1,116,718	190	0.9
1998	5,907,617	149,336	1,240,093	210	0.8
1999	5,942,901	154,842	1,228,373	207	0.9
2000	6,080,485	165,285	1,569,341	258	0.9
2001	6,126,470	169,204	1,624,467	265	1.1
2002	6,156,913	172,592	1,713,027	278	1.1
2003	6,195,643	178,327	1,774,081	286	1.0
2004	6,237,569 ⁽⁵⁾	187,714 ⁽⁵⁾	2,494,157	400	1.3

(1) Millions.

(2) Thousands.

(3) According to Moody's 2004 State Debt Medians, the median debt per capita for all states was about \$701.

(4) According to Moody's 2004 State Debt Medians, the median percentage for all states was about 2.4%.

(5) Preliminary estimate.

Source: Population: United States Bureau of Census. Personal Income: United States Department of Commerce, Bureau of Economic Analysis. Outstanding Debt: State Budget Agency.

Debt Issued in Fiscal Year 2006. Since June 30, 2005, the following debt was issued:

- \$400,000,000 Indiana Finance Authority Lease Appropriation Bonds (Stadium Project), Series 2005A, to finance costs of constructing a 63,000-seat multi-purpose stadium with a retractable roof; and
- \$40,000,000 Indiana Finance Authority Bond Anticipation Notes (Convention Center Expansion Project), Series 2005, to finance preliminary costs of expanding the existing Indiana Convention Center.

Authorized but Unissued Debt. The General Assembly has authorized the Indiana Finance Authority (as successor to the State Office Building Commission) to issue bonds to finance additional State facilities, including:

- (a) Two additional regional mental health facilities;
- (b) State-wide wireless public safety communications network; and
- (c) Laboratories for the State Police, Department of Health and Department of Toxicology.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to issue additional revenue bonds to finance construction of a stadium and expansion of a convention center in Indianapolis and to provide funds for research and technology grants and loans. *See* “Contingent Obligations—Economic Development.”

The Indiana Finance Authority may initially provide short-term, or construction, financing for these facilities through its commercial paper program.

The Indiana Finance Authority monitors refinancing opportunities for its revenue bonds, and may issue refunding bonds from time to time to restructure outstanding indebtedness or achieve debt service savings.

Contingent Obligations

Certain State-authorized entities, including the Indiana Bond Bank and Indiana Finance Authority, may issue obligations that, in certain circumstances, may require the entity to request an appropriation from the General Assembly to fund debt service on the obligations. The General Assembly is not required to make any such appropriations. Such obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In 2005, legislation was enacted that requires review by the Budget Committee and approval by the Budget Director of (a) the issuance by the Indiana Bond Bank or the Indiana Finance Authority of any indebtedness that establishes a procedure for requesting an appropriation from the General Assembly to restore a debt service or other fund to required levels or (b) the execution by the Indiana Bond Bank or the Indiana Finance Authority of any other agreement that creates a moral obligation of the State to pay any indebtedness issued by the Indiana Bond Bank or the Indiana Financing Authority.

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The Bond Bank is empowered to issue bonds or notes, payable solely from revenue and funds that are specifically allocated for such purpose, and loan the proceeds therefrom to local governments and other qualified entities.

To assure maintenance of the required debt service reserve in any reserve fund established for Bond Bank bonds or notes, the General Assembly may, but is not obligated to, appropriate to the Bond Bank for deposit in any such reserve funds the sum that is necessary to restore any such reserve funds to the required debt service reserve.

Bonds or notes issued by the Bond Bank for which such a debt service reserve is established are considered “moral obligation bonds”. However, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security for bonds issued by the Bond Bank, and a debt service reserve fund restoration appropriation would only be requested in the event that the particular designated sources were insufficient.

The total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited to \$1.0 billion plus (a) up to \$200 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30 million for certain qualified entities that operate as

telephone cooperative corporations. However, these limits do not apply to bonds or notes not secured by a reserve fund eligible for State appropriations.

For a list of Bond Bank bonds secured by a reserve fund eligible for State appropriations, *see* “Table 8—Schedule of Long Term Debt—Contingent Obligations—Bond Bank.”

Toll Road. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from tolls and other revenues derived from the ownership and operation of toll roads, to finance or refinance the cost of any toll road projects.

Pursuant to this authority, the Indiana Transportation Finance Authority and its predecessors issued their revenue bonds (the “Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. *See* “Table 8—Schedule of Long Term Debt—Contingent Obligations—Toll Road.”

The Toll Road Bonds are payable from rent under a lease agreement with the Indiana Department of Transportation. The rent is payable from tolls and other revenues derived from the operation of the Toll Road. In the event tolls and other revenues are insufficient in any year to pay expenses of the Toll Road and debt service on the Toll Road Bonds, the Indiana Department of Transportation is obligated to request an appropriation from the State to the extent of such insufficiency. However, the State is not required to make any appropriations to pay any rent.

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Toll Road to a private entity to operate for a term not to exceed 75 years. A portion of the revenues from the lease will be applied to pay or defease all or any portion of the Toll Road Bonds. *See* “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Toll Road Lease.”

Economic Development. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Development Financing Authority, had been authorized) to issue revenue bonds to finance or refinance (a) industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) educational facility projects; (c) farming and agricultural enterprises; (d) environmental pollution prevention and remediation; (e) child care facilities; and (f) broadband development projects.

Pursuant to this authority, the Indiana Development Finance Authority issued its revenue bonds to finance and refinance a wide variety of projects. The bonds (except the Steel Dynamics Bonds, Qualitech Bonds and Heartland Bonds (described below)) are payable solely from the revenues pledged thereto, are not in any respect a general obligation of the State and are not payable in any manner from revenue raised by taxation.

The Indiana Development Finance Authority issued its economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”) and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for such bond issue. The Indiana Development Finance Authority agreed to request appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances. However, the State is not required to make any appropriations to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Bonds. *See* “Table 8—Schedule of Long Term Debt—Contingent Obligations—Economic Development.”

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the debt service on the Qualitech Bonds and the Heartland Bonds is currently being funded from appropriations by the General Assembly.

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue its revenue bonds, payable from the revenues pledged thereto, to finance construction of a stadium and expansion of a convention center in Indianapolis. The capital improvements may be leased by the Indiana Finance Authority to a State agency

under a lease which requires the State agency to pay, from any amounts appropriated by the General Assembly, rent sufficient to pay debt service on the bonds, even if certain local tax revenues expected to satisfy debt service are insufficient. In addition, the Indiana Finance Authority may establish a debt service reserve fund and a procedure for requesting appropriations from the General Assembly to restore the debt service reserve fund to required levels. The Indiana Finance Authority has issued \$440,000,000 million of the bonds and is expected to issue an additional \$545,000,000 million of the bonds during the next three years.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to issue up to \$1.0 billion of its revenue bonds, payable from the revenues pledged thereto, to provide funds for research and technology grants and loans. The Indiana Finance Authority may establish a debt service fund or reserve fund for the bonds, to which the General Assembly may, if requested, appropriate funds necessary to pay debt service or restore the required debt service reserve.

Schedule of Long Term Debt. Table 8 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2005. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund.

Table 8
Schedule of Long Term Debt
Contingent Obligations

Type/Series	Original Par Amount	Ending Balance 6/30/04	(Redeemed)/ Issued	Ending Balance 6/30/05
Toll Road				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ 0	\$ 26,200,000
Series 1987	184,745,000	44,340,000	0	44,340,000
Series 1993	76,075,000	20,545,000	(10,010,000)	10,535,000
Series 1996	134,795,000	126,490,000	(3,015,000)	123,475,000
TOTAL TOLL ROAD	\$ 652,585,000	\$ 217,575,000	\$ (13,025,000)	\$ 204,550,000
Bond Bank				
Special Program Pool				
Series 1995A	\$ 4,540,000	\$ 3,315,000	\$ (3,315,000)	\$ 0
Series 1995B	13,280,000	10,615,000	(430,000)	10,185,000
Series 1997A	6,295,000	5,385,000	(195,000)	5,190,000
Series 1997C	5,010,000	4,780,000	(240,000)	4,540,000
Series 1998A	6,485,000	5,735,000	(195,000)	5,540,000
Series 2000A	31,495,000	30,070,000	(765,000)	29,305,000
Series 2000A (Refunding)	32,860,000	9,750,000	(1,505,000)	8,245,000
Series 2001A (Refunding)	20,840,000	17,020,000	(1,300,000)	15,720,000
Series 2001A	7,055,000	6,025,000	(560,000)	5,465,000
Series 2001B	9,500,000	8,570,000	(500,000)	8,070,000
Series 2002A	42,910,000	41,715,000	(1,170,000)	40,545,000
Series 2002C	3,940,000	3,430,000	(425,000)	3,005,000
Series 2002D	60,000,000	57,790,000	(1,160,000)	56,630,000
Series 2002E	10,155,000	9,905,000	(200,000)	9,705,000
Series 2003A	8,885,000	8,540,000	(430,000)	8,110,000
Series 2003B	40,385,000	40,385,000	0	40,385,000
Series 2003C	10,425,000	9,530,000	(785,000)	8,745,000
Series 2003D	27,515,000	0	27,515,000	27,515,000
Series 2003E	36,530,000	36,530,000	(450,000)	36,080,000
Series 2003F-1	17,155,000	17,155,000	(2,080,000)	15,075,000
Series 2003F-2	1,175,000	1,175,000	(20,000)	1,155,000
Series 2004A	17,210,000	17,210,000	(160,000)	17,050,000
Series 2004B	17,590,000	17,590,000	(325,000)	17,265,000
Series 2004C	35,010,000	35,010,000	0	35,010,000
Series 2004D	29,275,000	0	29,275,000	29,275,000
Series 2005A	14,790,000	0	14,790,000	14,790,000
TOTAL BOND BANK	\$ 510,310,000	\$ 397,230,000	\$ 55,370,000	\$ 452,600,000
Economics Development				
Qualitech Steel	\$ 33,100,000	\$ 25,000,000	\$ (1,400,000)	\$ 23,600,000
Steel Dynamics	21,400,000	14,000,000	(14,000,000)	0
Heartland Steel	13,800,000	10,900,000	(600,000)	10,300,000
TOTAL ECONOMIC DEVELOPMENT	\$ 68,300,000	\$ 49,900,000	\$ (16,000,000)	\$ 33,900,000
TOTAL ALL BONDS	\$ 1,231,195,000	\$ 664,705,000	\$ 26,345,000	\$ 691,050,000

Source: State Budget Agency (as of June 30, 2005)

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	Provide guarantees for industrial development or credit enhancement for Indiana enterprises
Indiana Health and Educational Facility Financing Authority ⁽¹⁾	Provide funds for health facilities and higher education facilities
Indiana Housing and Community Development Authority ⁽²⁾	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Port Commission	Provide funds for ports and other projects
Indiana Secondary Market for Education Loans, Inc. ⁽³⁾	Provide funds for secondary market for higher education loans
Indiana State Fair Commission	Provide funds for State fairgrounds

⁽¹⁾ Successor agency to Indiana Health Facility Financing Authority and Indiana Educational Facilities Authority.

⁽²⁾ Formerly, Indiana Housing Finance Authority. Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds, but has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF has been administered by a five member Board of Trustees appointed by the Governor. On July 1, 2005, the Board of Trustees was expanded to include the State Budget Director. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local government units, judges, legislators, prosecutors, municipal police and fire units and State conservation and excise officials. On July 1, 2004, the State portion of PERF, the Judges' Retirement System, the Legislators' Retirement System, the Excise Police & Conservation Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund had 208,747 active and retired members and total assets of \$9,780,331,652.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. For State employees, the State pays the employee contributions to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table 9
Public Employees' Retirement Fund
(State-Related Portion Only)

	<u>2000</u>	<u>2001⁽¹⁾</u>	<u>July 1 2002</u>	<u>2003</u>	<u>2004</u>
Funded Status					
Actuarial Value of Assets	\$ 1,960,018,018	\$ 2,063,626,964	\$ 2,061,789,940	\$ 2,078,952,506	\$ 2,138,655,367
Actuarial Accrued Liability	1,701,091,436	1,896,505,744	2,010,177,846	1,860,101,326	2,019,492,456
Unfunded/(Overfunded) AAS	(258,926,582)	(167,121,220)	(51,612,904)	(218,851,183)	(98,581,259)
Funded Ratio	115.2%	108.8%	102.6%	111.8%	105.9%
Contribution History					
Annual Required Contribution	\$ 61,761,627	\$ 66,559,482	\$ 72,332,921	\$ 79,641,040	\$ 54,579,389
Actual Employer Contribution	84,353,750	76,218,663	77,420,077	80,795,703	90,708,898
Contribution Rate ⁽²⁾	5.0%	5.2%	5.6%	3.8%	4.5%

⁽¹⁾ Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

⁽²⁾ Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2004.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Retirement System, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table 10 highlights the actuarial valuation findings for these plans as of July 1, 2004.

Table 10
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2004)

	<u>Judges' Retirement System</u>	<u>Legislators' Defined Benefit Plan</u>	<u>Excise Police & Conservation Officers' Retirement Plan</u>	<u>Prosecuting Attorneys' Retirement Fund</u>
Funded Status				
Actuarial Value of Assets	\$ 135,797,814	\$ 4,205,956	\$ 38,772,114	\$ 14,654,699
Actuarial Accrued Liability	209,991,843	4,856,463	50,009,686	22,588,463
Unfunded/(Overfunded) AAL	74,194,029	650,507	11,237,572	7,933,764
Funded Ratio	64.7%	86.6%	77.5%	64.9%
Contribution History⁽¹⁾				
Annual Required Contribution	\$ 10,488,119	\$ 95,387	\$ 2,190,366	\$ 144,243
Actual Employer Contribution	12,965,157	205,540	2,120,058	933,000

⁽¹⁾ Contribution History is for Plan Year 2004

Source: Actuarial Valuation Reports, July 1, 2004

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a “pay-as-you-go” basis, under which benefits are paid from current revenue provided by cities and towns and by plan members’ contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State’s cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2004, \$110.2 million was expended from the pension relief fund, and on June 30, 2004, the total net assets of the pension relief fund were \$393.8 million.

State Teachers’ Retirement Fund

The Indiana State Teachers’ Retirement Fund (“TRF”) administers a multiple-employer retirement fund established to provide pension benefits for teachers and their supervisors in the State’s public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. TRF is administered by a five member Board of Trustees appointed by the Governor (“TRF Board”). On July 1, 2005, the TRF Board was expanded to include the State Budget Director. On June 30, 2005, TRF had 117,678 total members with assets totaling \$7,179,715,875.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary and (2) an additional benefit based upon the member’s annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee’s salary. Each employer is authorized to elect to pay the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a “pay as you go” basis. As a result, there is a substantial unfunded accrued liability in the TRF (the “Closed Plan”).

To address TRF’s unfunded liability, the State and the TRF Board took the following actions:

(a) The State capped its pension benefit obligation by (i) shifting the obligation for all teachers hired after July 1, 1995, to local school districts and (ii) implementing a level percent of payroll current funding approach (the “New Plan”). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the New Plan.

(b) The New Plan was intended to be responsible not only for newly hired teachers into the schools, but also for the cost of teachers who began service before 1995 but subsequently transferred to other school corporations after 1995. The liability for these transferred teachers, which shifted from the Closed Plan to the New Plan, began to cause an unfunded liability in the New Plan. The General Assembly in 2005 addressed this growing unfunded liability in the New Plan by stopping the transfer of liabilities—therefore transferred teachers remain part of the Closed Plan. In addition, the actuarial assumptions used for calculating the contributions rate into the New Plan now include an assumption for a cost of living adjustment, thereby making the contribution rate for which local schools are liable more realistic. The TRF Board has set the current contribution rate for the New Plan at 7.0%.

(c) In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to partially pre-fund liabilities in the Closed Plan. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenue, as well as investment income. As of June 30, 2005, the Pension Stabilization Fund balance was \$1.971 billion.

	June 30				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Funded Status of Closed Plan					
Actuarial Value of Assets	\$ 5,363,497,813	\$ 5,555,352,257	\$ 5,728,553,155	\$ 5,765,667,711	\$5,796,723,667
Actuarial Accrued Liability	12,695,787,691	13,497,778,031	13,354,866,440	13,548,525,320	14,254,146,576
Unfunded/(Overfunded) AAL	7,332,289,878	7,942,425,774	7,626,313,285	7,782,857,609	8,457,422,909
Funded Ratio	42.2%	41.2%	42.9%	42.6%	40.7%
Funded Status of New Plan⁽¹⁾					
Actuarial Value of Assets	\$ 447,261,751	\$ 621,222,272	\$ 825,811,772	\$ 1,038,726,916	1,268,575,809
Actuarial Accrued Liability	838,038,282	1,166,883,205	1,392,472,616	1,649,400,668	2,010,746,868
Unfunded AAL	380,776,531	545,660,933	566,660,844	610,673,752	742,171,059
Funded Ratio	54.0%	53.2%	59.3%	63.0%	63.1%

(1) Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.

Source: Indiana State Teachers' Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2005.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for the trust. Certain financial information about the State Police Pension Trust is also included in the 2005 Financial Report. See "FISCAL POLICIES—2005 Financial Report."

ECONOMIC AND DEMOGRAPHIC INFORMATION

Summary

Indiana has a strong and vibrant economy that is growing in diversity, even as it strengthens its manufacturing roots. With an estimated 2004 Gross State Product of approximately \$227.6 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, medical equipment and surgical supplies, engines and parts, magnetic and optical media, household appliances, motor vehicle bodies and trailers, rubber products and steel. From 1995 to 2005, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 32%, followed by a 25% gain in Education and Health Services and a 17% increase in Construction. The Manufacturing sector is 19.5% of total employment in Indiana, a decrease from 23.6% in 1995; however, manufacturing remains the largest single sector of employment in Indiana.

Indiana is rich in assets with a low cost of living, a business friendly regulatory environment and an efficient transportation system. Well-located for goods production and distribution, Indiana is within a day's drive of nearly two-thirds of the United States' population. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana's major cities has been consistently below the national average. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

In 2005, legislation was enacted that consolidated many of the State's economic development activities into the Indiana Economic Development Corporation. The Indiana Economic Development Corporation, a body politic and corporate, separate from the State, is governed by a 12-member board, chaired by the Governor. The Indiana Economic Development Corporation is charged with leading the State's economic development efforts by, among other activities, providing grants and loans to businesses to promote economic development.

Population

Indiana is the 14th most populous state in the United States. Indiana's population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 17.8%, making it the second fastest growing major metropolitan area in the Midwest.

Table 11
Population, including Selected Indiana MSAs

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>Percentage Change</u> <u>1980-2000</u>
Indiana	5,490,210	5,544,159	6,080,485	10.8%
Indianapolis MSA	1,166,575	1,294,217	1,525,104	30.7
Fort Wayne MSA	354,156	363,811	502,141	41.8
Evansville- Henderson MSA	235,403	235,946	251,366	6.8
Gary Primary MSA	642,733	604,526	631,362	-1.8
South Bend MSA	241,617	247,052	265,559	9.9
United States	226,542,199	248,709,873	281,421,906	24.2

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 19.5% of total employment, it was the slowest growing sector from 1995 to 2005. The fastest growing sectors were Professional and Business Services, which grew by 31.9% from 1995 to 2005, followed by Education and Health Services (25.2% growth). During the last ten years, Indiana's annual unemployment rate has generally remained below that of the United States, averaging approximately 84% of the national rate.

Table 12
Indiana Non-Farm Employment by Sector; July 1995 to July 2005
(Non-Seasonally Adjusted)

<u>NAICS Super Sectors</u>	<u>1995</u>	<u>Percentage of Total</u>	<u>2005</u>	<u>Percentage of Total</u>	<u>Growth 1995-2005</u>
Professional and Business Services	208,000	7.55%	274,300	9.35%	31.88%
Educational and Health Services	296,000	10.74	370,500	12.63	25.17
Leisure and Hospitality	244,900	8.89	290,100	9.89	18.46
Construction	137,700	5.00	160,800	5.48	16.78
Government	352,900	12.81	381,400	13.00	8.08
Other Services	105,500	3.83	112,300	3.83	6.45
Financial Activities	137,200	4.98	143,100	4.88	4.30
Natural Resources and Mining	7,200	0.26	7,400	0.25	2.78
Trade, Transportation, and Utilities	574,900	20.87	581,100	19.80	1.08
Information	41,600	1.51	41,200	1.40	-0.96
Manufacturing	<u>649,100</u>	<u>23.56</u>	<u>572,200</u>	<u>19.50</u>	-11.85
Total All Sectors	<u>2,755,000</u>	<u>100.00%</u>	<u>2,934,400</u>	<u>100.00%</u>	6.51%
Goods Producing	794,000	28.82%	740,400	25.23%	-6.75%
Servicing-Providing	1,961,000	71.18%	2,194,000	74.77%	11.88%

Source: US Bureau of Labor Statistics, Current Employment Survey

Table 13
Unemployment Rate
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as Percentage of U.S.</u>
1995	4.7%	5.6%	83.9%
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0
2001	4.4	4.7	93.6
2002	5.1	5.8	87.9
2003	5.1	6.0	85.0
2004	5.3	5.5	96.4
2005	5.4	5.1	105.9

Source: US Bureau of Labor Statistics, Current Employment Survey

Income

In 2005, Indiana's per capita personal income reached \$31,276, increasing 3.5% from 2004. During the past ten years, Indiana's personal income grew at an average annual rate of 4.6%. Indiana's personal income has grown more rapidly than the nation's in the early years of a recovery and more slowly during the later stages.

Table 14
Growth in Per Capita Personal Income

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1995	\$21,408	\$23,076	--%	--%
1996	22,368	24,175	4.5	4.8
1997	23,306	25,334	4.2	4.8
1998	24,894	26,883	6.8	6.1
1999	25,615	27,939	2.9	3.9
2000	27,134	29,847	5.9	6.8
2001	27,619	30,527	1.8	2.3
2002	28,032	30,906	1.5	1.2
2003	28,783	31,632	2.7	2.3
2004	30,204	33,050	4.9	4.5
2005	31,276	34,586	3.5	4.6
Average Annual Growth Rate (1995-2005):			4.61%	4.99%
Total Growth Rate (1995-2005):			46.09%	49.88%

Source: US Department of Commerce, Bureau of Economic Analysis

Gross State Product

With an estimated 2004 Gross State Product of approximately \$227.6 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 2001, Indiana's Gross State Product has grown at average annual rate of 5.4%.

Table 15
Indiana Gross State Product by Sector; 1997 to 2004
(Millions of Current Dollars)

<u>NAICS Super Sectors</u>	<u>1997</u>	<u>Percentage of Total</u>	<u>2004</u>	<u>Percentage of Total</u>	<u>Percentage Growth 1997-2004</u>
Arts, entertainment, and recreation	\$ 1,616	0.96%	\$ 2,978	1.31%	84.28%
Educational services	995	0.59	1,545	0.68	55.28
Health care and social assistance	10,454	6.22	16,035	7.05	53.39
Administrative and waste services	3,634	2.16	5,665	2.49	55.89
Professional and technical services	5,694	3.39	8,319	3.66	46.10
Finance and insurance	9,615	5.72	13,791	6.06	43.43
Real estate, rental, and leasing	15,952	9.49	22,197	9.75	39.15
Construction	7,880	4.69	10,618	4.67	34.75
Retail trade	11,507	6.84	14,886	6.54	29.36
Government	16,356	9.73	21,982	9.66	34.40
Other services, except government	3,966	2.36	5,247	2.31	32.30
Transportation and warehousing	5,685	3.38	7,615	3.35	33.95
Accommodation and food services	3,691	2.20	4,869	2.14	31.92
Mining	651	0.39	821	0.36	26.11
Manufacturing	48,370	28.77	63,477	27.89	31.23
Wholesale trade	9,303	5.53	11,937	5.25	28.31
Information	3,967	2.36	5,497	2.42	38.57
Utilities	4,240	2.52	5,362	2.36	26.46
Management of companies and enterprises	2,295	1.37	2,536	1.11	10.50
Agriculture, forestry, fishing, and hunting	<u>2,242</u>	<u>1.33</u>	<u>2,192</u>	<u>0.96</u>	-2.23
Total Gross State Product	<u>\$168,113</u>	<u>100.00%</u>	<u>\$227,569</u>	<u>100.00%</u>	35.37%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

Since 2002, Indiana businesses have significantly increased exported output. The value of exports in calendar year 2003 jumped to \$16,402 million, a 9.95% increase over 2002, in 2004 the total value increased to \$19,109 million, a 16.47% growth rate, and in 2005 increased to \$21,476 million, a 12.39% increase. Since 1997, Indiana's exports have grown at an average annual rate of 9.82% as compared to 3.90% for the United States as a whole.

Table 16
Exports
(Millions)

<u>Year</u>	<u>Exports</u>		<u>Annual Percentage Change</u>		<u>Indiana as a Percentage of U.S. Exports</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	
1997	\$12,029	\$689,182	- %	- %	1.75%
1998	12,318	682,138	2.41	-1.02	1.81
1999	12,910	695,797	4.81	2.00	1.86
2000	15,386	781,918	19.17	12.38	1.97
2001	14,365	729,100	-6.63	-6.75	1.97
2002	14,923	693,103	3.88	-4.94	2.15
2003	16,402	724,771	9.95	4.57	2.26
2004	19,109	818,775	16.47	12.97	2.33
2005	21,476	904,383	12.39	10.46	2.37
Average Annual Growth Rate (1997-2005):			9.82%	3.90%	
Total Growth (1997-2005):			78.54%	31.23%	

Source: U.S. Census Bureau, Foreign Trade Division

Table 17
Indiana's Leading Export Industries and Destinations
(Millions)

<u>Export Industries</u>		<u>Export Destinations</u>	
<u>Industry</u>	<u>2003 Exports</u>	<u>Country</u>	<u>2005 Exports</u>
Vehicles, excluding Railway	\$ 4,446.3	Canada	\$ 9,550
Machinery	3,531.8	Mexico	2,618
Electrical Machinery	1,312.8	United Kingdom	1,516
Organic Chemical	1,194.3	France	1,467
Optic/Medical Instruments	997.8	Japan	769
Pharmaceutical	735.9	Germany	691
Miscellaneous Chemical	643.4	Netherlands	427
Plastic	622.0	China	418
Iron and Steel	298.1	Australia	334
Aluminum	212.8	South Korea	303
Other	<u>2,407.1</u>	Other	<u>3,383</u>
Total	<u>\$16,402.3</u>		<u>\$21,476</u>

Source: U.S. Census Bureau, Foreign Trade Division

LITIGATION

The following litigation liability survey is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding \$10.0 million individually or in the aggregate. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

Contract Litigation

In June 2000, in *Linet Alexander Chanell, et al v. Marion County Sheriff and Indiana Department of Administration*, plaintiffs filed a class action lawsuit, that alleged the Sheriff and the Department of Administration entered into illegal telecommunication contracts that allowed the Sheriff and the Department of Administration to collect commissions from the collect call telephone service which is provided to inmates, and that the Sheriff and the Department of Administration caused the telecommunication providers to charge unreasonable telephone rates. Plaintiffs' allegations against the Department of Administration specifically claim that the Department of Administration breached its common law duty of reasonableness, levied unauthorized taxes, was unjustly enriched and violated Indiana's antitrust statute. The Department of Administration's motion for summary judgment was filed in March 2006, and the summary judgment hearing is tentatively scheduled for July 25, 2006. If plaintiffs are successful, the damages could be in excess of \$12.0 million.

In July 2002, in *Raybestos vs. Indiana Department of Environmental Management*, plaintiff filed a breach of contract action against the State alleging that the Indiana Department of Environmental Management failed to abide by the terms of an agreed order relating to the clean-up of Shelly Ditch in Crawfordsville, Indiana. The plaintiff is seeking \$18 million in damages. On a motion for summary judgment, plaintiff prevailed on the breach of contract issue. The case is set for closing arguments in January 2006. Findings of fact and conclusions of law are to be submitted in April 2006.

In August 2002, in *Arthur Andersen vs. Department of Local Government and Finance*, plaintiff was hired to conduct reassessment of real property in Lake County, and later filed a breach of contract action. The firm seeks \$12.0 million in damages. Plaintiff asserts that the Department of Local Government Finance approved the firm's invoices, but then failed to abide by a contractual provision requiring the Department of Local Government Finance to take steps to force Lake County to pay invoices. Plaintiff's motion for summary judgment was denied April 29, 2004. Bench trial was held August 31, 2005. November 23, 2005, the court entered a final judgment for Arthur Anderson in the amount of \$2,439,595.40, and the State was not held responsible for this amount. January 9, 2006, the Department of Local Government Finance and Lake County each filed a response to a motion to correct errors that was filed by Anderson. On January 16, 2006, Anderson filed a request for hearing on the motion to correct errors; this hearing was denied. Notice of appeal was filed by the plaintiff.

Employment Litigation

In July 1993, in *Paula Brattain, et al vs. Richmond State Hospital.*, plaintiffs filed a lawsuit in a state trial court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay from September 19, 1973, to September 19, 1993. The court certified plaintiffs' class, and class notification is complete. No trial date has been set. Plaintiffs seek damages in an unspecified amount, as well as attorneys' fees and costs. If plaintiffs are ultimately successful, the damages will be in excess of \$10.0 million.

In June 1998, in *Blythe A. Whinery vs. Sue Roberson*, the former Director of State Personnel, a group of State employees filed a class action for damages and injunctive relief, claiming violation of plaintiffs' due process and statutory and contractual rights. Plaintiffs seek damages, back wages, and attorneys' fees and costs, in excess of \$10.0 million. A State court found in favor of the State, but plaintiffs appealed. Oral arguments were heard in November 2004. Opinion was affirmed in part, reversed in part. Petition for re-hearing was denied. Petition for transfer was filed. A tentative class settlement was reached with the approval of the Attorney General and

Governor. The court has preliminarily approved the class settlement and class members have been served. The final fairness hearing was held and concluded. A final judgment and order approving settlement agreement and dismissing action with prejudice was issued on February 2, 2006. A joint notice to dismiss petition to transfer to the Supreme Court based on settlement was granted on February 22, 2006..

Civil Rights Litigation

In 1968, in *United States of America, et al v. Board of School Commissioners, et al*, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court. State expenditures will be gradually reduced as the plan is phased out.

Property Litigation

In December 2000, in *NJK Farms and George W. Pendygraft vs. Indiana Department of Environmental Management*, property owners filed an action against the State, including the Office of Environmental Adjudication, claiming that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process under the United States Constitution, as well as a violation of the Indiana Constitution. Plaintiffs are seeking in excess of \$30.0 million in damages plus costs and attorney fees. Federal claims against the Office of Environmental Adjudication were dismissed by the federal court. Remaining federal claims are expected to be taken up after the state court acts. Pendygraft is attempting to negotiate a settlement that would grant him a landfill permit. The State is monitoring the permit process as a component of the settlement. Pre-answered discovery continues. The case is still stayed.

In May 2000, *Greenfield Mills v. Indiana Department of National Resources* was filed against the State by property owners along the Fawn River in Northeastern Indiana, alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of \$38.0 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State, but the property owners appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and prepared briefs in support of new motions for summary judgment for consideration of the trial court. An order denying the State's motion for summary judgment and entering summary judgment in favor of the Plaintiffs (on liability) was issued. The parties have to file a joint status report, following a teleconference with the court, as to how this case will proceed. Currently an independent surveyor is assessing the Fawn River. This assessment may take a year to conduct.

In March 2004, in *Corbin Smyth vs. Steve Carter and Tim Berry*, an owner of unclaimed property filed a class action in state court alleging that Indiana's unclaimed property statute is unconstitutional under the federal and Indiana constitutions and that interest, dividends and the like should be paid to owners of unclaimed property. Fiscal impact is potentially more than \$10.0 million. State filed motion to dismiss. Motion to dismiss was granted. Plaintiff filed notice of appeal and appellate brief. Defendant has filed appellate brief. Oral argument was set for January 2006. Argument was held, and the State is awaiting a decision from the Court of Appeals.

Tax Litigation

In July 2005, in *Marion County ex rel. Bart Peterson v. Connie Nass*, Marion County challenges: (1) constitutionality of statute that requires county to pay state for expenses of juvenile incarceration (Marion County is approximately \$62 million in arrears), and (2) the misapplication of Indiana Code Sections 11-10-2-3 and 4-24-7-2, in that Marion County has been assessed by the State for costs incurred by Department of Correction institutions other than the Boys School and the Girls School. On July 27, 2005, plaintiff filed a motion for preliminary injunction. Court issued an order setting motion for hearing for August 16, 2005. On July 27, 2005, St. Joseph County moved to intervene as another plaintiff. On July 28, 2005, defendants filed appearances of counsel, notice of automatic enlargement, up to and including September 3, 2005, in which to respond to the complaint, and motion for change of venue from the county. The cause was venued to Shelby Superior Court. All State defendants filed

their answer and motion for summary judgment. The court granted Joseph and Clark Counties' motion to intervene as plaintiffs. A hearing was held in September 2005 on motions that had been filed. Discovery is currently ongoing.

Toll Road Lease

On April 12, 2006, the Indiana Finance Authority executed an agreement with a private entity to lease the Indiana Toll Road to the private entity. *See* "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS--Toll Road Lease." On the same date, two lawsuits were filed challenging the constitutionality of the lease.

APPENDIX B

ADDITIONAL INFORMATION PERTAINING TO THE CITY OF EAST CHICAGO, INDIANA

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GENERAL, PHYSICAL, SOCIAL AND DEMOGRAPHIC INFORMATION

Location

The City of East Chicago, Indiana (the "City") is located on the southern shore of Lake Michigan between the City of Gary, Indiana and the City of Hammond, Indiana, the State's 5th and 6th largest cities, respectively. The City is approximately 20 miles southeast of the City of Chicago, Illinois.

History and General Characteristics

The City was incorporated in 1893. It is generally known for its resident steel industry; Great Lakes, rail and interstate transportation network; schools and recreational opportunities. The City is an urbanized home to over 30,000 people. Of the City's 12 square miles, 3 1/2 miles are residential in nature.

Population

According to the U.S. Bureau of Census, the population of the City is reported as follows:

<u>Year</u>	<u>City</u>
Estimate 7/1/04	31,237
2000	32,414
1990	33,892
1980	39,786
1970	46,982
1960	57,669

Government

The City is governed by a Mayor and nine-member Common Council. Mayor George Pabey is currently serving his first four-year term as Mayor. Prior to his election to Mayor, Mayor Pabey served on East Chicago's Common Council.

The City Controller is appointed by the Mayor and is responsible for the financial records of the City. The current City Controller is in his second year of service.

City services include public safety, highways and streets, health and social services, recreation and culture, public improvements, planning and zoning, water, wastewater, sewage collection, solid waste disposal and urban development and housing. The City has 978 full- and part-time employees.

GENERAL ECONOMIC AND FINANCIAL INFORMATION

Employment

Unemployment percentages for Lake County and Indiana for the last ten years are reported as follows.

<u>Annual Unemployment Averages</u>			<u>Lake County Labor Force</u>
<u>Year</u>	<u>County of Lake</u>	<u>State of Indiana</u>	
1996	5.3%	3.9%	228,593
1997	4.3%	3.3%	230,028
1998	3.9%	2.9%	229,912
1999	4.0%	2.9%	227,139
2000	3.6%	2.9%	226,463
2001	4.9%	4.2%	226,202
2002	6.5%	5.2%	225,810
2003	6.2%	5.3%	223,761
2004	6.3%	5.2%	222,936
2005	6.0% (1)	5.4%	225,847 (1)

(1) For December 2005 since annual average for 2005 is not yet available.

Source: Bureau of Labor Statistics

Industry

Six entities, (Mittal Steel, Harrah's Entertainment, BP Products, School City of East Chicago, City of East Chicago and St. Catherine Hospital) have facilities within the City that employ over 12,300 people. The five largest taxpayers for assessment year 2004 pay 2005 (Mittal Steel, Harrah's, ISG Indiana Harbor, Inc., BP Products and Praxair, Inc.) have an assessed value of over \$466,300,000.

In 2004, the City's largest taxpayer, Ispat International and LNM Holdings announced their merger to form Mittal Steel ("Mittal"). Mittal ships steel worldwide and provides approximately 28% of the annual property tax revenues for the City. In 2005, Mittal acquired the Indiana Harbor steel facilities from ISG Indiana Harbor, Inc. ("ISG").

The common stock of Mittal is listed and trades on the New York Stock Exchange under the symbols "MT." Mittal reports earnings and makes periodic news announcements as required by the New York Stock Exchange and the Securities and Exchange Commission. This information is publicly available.

Large Employers

The following is a list of the largest employers in the City. Employment statistics are reported by company personnel or from the Northwestern Indiana Regional Planning Commission.

<u>Employer</u>	<u>Product</u>	<u>Reported Employment</u>
Mittal Steel	Manufacturing	6,400
Harrah's Entertainment	Casino gambling	1,900
BP Products	Petroleum refining	1,200
St. Catherine Hospital	Medical treatment	1,000
City of East Chicago	Government	978
School City of East Chicago	Education	952
PCI Associates	Transfer & storage	350
United States Gypsum	Manufacturing	210
Praxair	Manufacturing	185
Safety Kleen Corp.	Chemical refining	90

Earnings and distributions of labor force by major employment divisions in 2004, (the most current information available), for Lake County are as follows:

<u>Industry</u>	<u>Average Annual Pay</u>	<u>Percent of Earnings</u>	<u>Distribution of Labor Force</u>
Manufacturing	\$63,216	24.26%	25,930
Government	32,381	4.80%	10,006
Agriculture, forestry and mining	40,564	0.28%	461
Wholesale and retail trade	25,985	11.97%	31,126
Construction	45,168	8.39%	12,542
Transportation, communication & public utilities	37,679	5.77%	10,348
Service & other	28,995	37.54%	87,475
Finance, insurance and real estate	36,091	<u>6.99%</u>	<u>13,081</u>
Total		<u>100.00%</u>	<u>190,969</u>

Source: Indiana Department of Workforce Development.

Employment Statistics and Patterns

The figures below, which were furnished by the Indiana Employment Security Division, Merrillville, Indiana, reflect employment statistics and patterns with respect to the work force in Lake County.

<u>Year</u>	<u>Labor Force</u>	<u>Number Employed</u>	<u>Number Unemployed</u>	<u>Rate of Unemployment</u>
1996	228,593	216,436	12,157	5.3%
1997	230,028	220,250	9,778	4.3%
1998	229,912	220,869	9,043	3.9%
1999	227,139	217,973	9,166	4.0%
2000	226,463	218,256	8,207	3.6%
2001	226,202	215,160	11,042	4.9%
2002	225,810	211,142	14,668	6.5%
2003	223,761	209,848	13,913	6.2%
2004	222,936	209,001	13,935	6.3%
2005	225,847 (1)	212,355 (1)	13,492 (1)	6.0% (1)

(1) For December 2005 since annual average for 2005 is not yet available.

Miscellaneous Economic Data

The following information concerning Lake County and the State of Indiana has been obtained from the Bureau of Census Reports and the Indiana State Library.

Per Capita Income

<u>Year</u>	<u>City of East Chicago</u>	<u>County of Lake</u>	<u>State of Indiana</u>
2000	N/A	\$26,318	\$27,132
2001	N/A	26,278	27,397
2002	N/A	26,518	27,960
2003	\$27,054	27,054	28,838

Median Family Income

<u>Year</u>	<u>City of East Chicago</u>
2000	\$26,538

Source: Bureau of Census Reports

Construction

Below is a summary of building permit data from the City of East Chicago. Building permit values do not reflect land or personal property.

<u>Year</u>	<u>Residential</u>		<u>Commercial</u>		<u>Total</u>
	<u>Units</u>	<u>Value</u>	<u>Units</u>	<u>Value</u>	<u>Value (A)</u>
2000	779	\$4,879,029	220	\$45,795,473	\$51,299,631
2001	713	5,162,173	215	9,018,076	14,245,812
2002	705	4,644,410	227	24,904,442	29,617,963
2003	673	2,293,891	222	7,600,091	11,185,071
2004	730	2,693,070	223	7,768,410	10,808,109
2005	698	2,864,055	219	11,258,234	14,855,419

Source: City of East Chicago Building Department

(A) Includes those classified as "other"

Primary Education

The School City of East Chicago ("School Corporation") is a school corporation and political subdivision of the State of Indiana as described in Indiana Code 20-23-4. It is charged with the responsibility of providing public school education to the children within its boundaries.

The School Corporation is coterminous with the City. A five-member board of school trustees, appointed to four-year staggered terms, governs the School Corporation. Administrative functions are carried out by a superintendent of schools, appointed by the board. The School Corporation, as of September 2006, had a total staff of 952 personnel.

In addition to the administration center, 10 school buildings are currently housing the educational programs for the School Corporation. Summary information about the schools presented by selected category follows:

<u>Name of School</u>	<u>Date of Construction/ Add/Renovation</u>	<u>2004-05 Enrollment</u>
<u>Elementary Schools:</u>		
Field	1952/87	309
Franklin	1928/93	668
Carrie Gosch	1998	442
Harrison	1930/94	657
Lincoln	1973/84	624
McKinley	1961/94	818
Washington	1979/83	435
<u>Secondary Schools:</u>		
Central High	1986/89	1,389
Block Jr. High	1967/81	513
West Side Jr. High	1976/80	439
<u>Other Buildings:</u>		
Kennedy Admin Bldg	1964/85	N/A
Central Maintenance	1990	N/A

Enrollments for the School Corporation system for the last 10 years have been:

<u>Academic Year</u>	<u>Enrollment</u>	<u>Academic Year</u>	<u>Enrollment</u>
1995-96	6,291	2000-01	6,212
1996-97	6,322	2001-02	6,272
1997-98	6,152	2002-03	6,415
1998-99	6,184	2003-04	6,494
1999-00	6,302	2004-05	6,294

In addition, three parochial schools, teaching grades K-8 and special education are located in East Chicago. They, however, are not part of the School Corporation's responsibilities. They have a total current enrollment of approximately 320 students.

Higher Education

The institutions of higher education in the East Chicago area are Indiana University Northwest Campus in Gary, Purdue University Calumet Campus in Hammond, Indiana, Calumet College in Whiting, Valparaiso University in Valparaiso and Indiana Vocational Technical College in East Chicago. All are within 20 miles of East Chicago.

Transportation

The City of East Chicago is served by a network of roads, highways and thoroughfares which include Interstate Highways 65, 80, 90 (Indiana toll road) and 94, U.S. Highways 6, 12, 20 and 41 and State Roads 152, 312 and 912. Rail service is provided by Conrail, Elgin Joliet & Eastern, Chessie System and the South Shore railroads. Numerous trucking companies service the City. In addition to the Gary Chicago Municipal Airport adjacent to the City, Chicago's Midway and O'Hare airports are within an hour's driving distance of East Chicago. Barge and shipping-terminal facilities are also available as a result of the Lake Michigan deep-water port and inland barge canals in the City.

SCHEDULE OF BONDED INDEBTEDNESS

The following tabulation, calculated as of January 1, 2006, has been adjusted to reflect the issuance of the Bonds.

		<u>Per Capita</u>	<u>Percent of Assessed Valuation</u>
Direct Debt	\$111,610,237	\$3,573	8.77%
Direct & Overlapping Debt	114,061,351	3,651	8.96%

Current Population Estimate: 31,237

Collection Year 2005 Net Assessed Valuation: \$1,272,879,854

The following tabulation itemizes the direct and overlapping indebtedness of the City and its various special taxing districts as of January 1, 2006:

	<u>Amount</u>	<u>Applicable Percent</u>	<u>Applicable Amount</u>
<u>Direct Debt:</u>			
General Obligation-Civil City	\$ 4,797,737	100.0%	\$ 4,797,737
The Bonds	27,940,000	100.0%	27,940,000
School City	76,582,500	100.0%	76,582,500
Sanitary District (revenue supported)	-	100.0%	-
Park District	2,290,000	100.0%	2,290,000
Public Library District	-	100.0%	-
Redevelopment District	-	100.0%	-
Water Utility (revenue supported)	-	100.0%	-
Total	\$ <u>111,610,237</u>		\$ <u>111,610,237</u>

Overlapping Debt:

Lake County	\$	<u>35,835,000</u>	<u>6.84%</u>	\$	<u>2,451,114</u>
Total Direct and Overlapping Debt				\$	<u>114,061,351</u>

Tax Anticipation Warrants

Tax anticipation warrants of the City sold in September 2005 still outstanding are as follows:

	Due June 30, 2006
<u>Fund</u>	<u>Principal</u>
General	\$10,000,000
Parks and Recreation	700,000
Lease Rental	500,000
Fire Pension	495,797
Police Pension	<u>565,598</u>
Total	<u>\$12,261,395</u>

VALUATION, PROPERTY TAX RATE AND COLLECTION INFORMATION

Property Tax Levies and Collections

<u>Collection Year</u>	<u>Total Property Tax Levy</u>	<u>Collected by Year End</u>	<u>Percentage Collected</u>	
2001	\$44,895,166	\$37,388,049	83.28%	(3a)
2002	53,226,112	51,835,065	97.39%	(3b)
2003	52,769,558	44,646,251	84.61%	(3c)
2004	55,214,069	49,473,667	89.60%	(3c)
2005	55,531,929	51,032,817	91.90%	(3c)

(3a) Per the City, low collections in 2001 were due to LTV Steel filing for bankruptcy.

(3b) The Local Government Tax Control Board approved a levy increase for 2001 payable 2002 in the amount of \$1,540,919.

(3c) Per the City, Inland Steel did not pay all property taxes on personal property assessments being appealed where the local assessor certified a much higher level than filed by the Company in the abstract. The City believes there are several large properties on the abstract which are not collectible due to bankruptcy and is working with the local assessor to resolve these items. The City has chosen not to pursue an excess levy appeals but has instead made up the lost property tax revenues with gaming revenues.

The above amounts include the City's General Fund, Special Revenue funds, Debt Service funds, Capital Project funds, Police and Fire Pension Trust funds and Sanitary District General Maintenance and Expense Funds. The above amounts for tax collections exclude amounts related to gaming related admissions taxes and wagering taxes. See "Certain Riverboat Gaming Related Matters" herein.

2004 Pay 2005 Assessed Value of Taxable Property

Assessed real property	\$739,212,674
Assessed personal property	<u>533,667,180</u>
Total assessed value of property	<u>\$1,272,879,854</u>

Source: Total assessed value per the Department of Local Government Finance and the Lake County Auditor's Office.

Net Assessed Valuation - City of East Chicago

<u>Assessment Year / Collection Year</u>	<u>Net Assessed Valuation</u>	
2000 pay 2001	\$485,799,544	(1a)
2001 pay 2002	901,465,203	(1b)
2002 pay 2003	1,448,161,558	
2003 pay 2004	1,240,514,712	(1c)
2004 pay 2005	1,272,879,854	
2005 pay 2006		(1d)

(1a) Effective with the 2001 pay 2002 property tax collection cycle, the definition of assessed value was modified from "one-third of True Tax Value" to "equals True Tax Value". Accordingly, assessed valuations increased by a factor of approximately three times to reflect this change in the measurement of the assessed valuation.

(1b) Per Lake County Auditor's office, low assessed valuation is due in part to LTV Steel filing for bankruptcy.

(1c) Per Lake County Auditor's office, decrease in assessed valuation is due to appeals of abatements received in an Enterprise Zone. Per the City, the personal property assessment decreased since the steel mills can now depreciate to 10% of the original cost.

(1d) Per Lake County Auditor's office, 2005 pay 2006 certification to occur in May 2006.

Largest Property Taxpayers (2004 Pay 2005)

<u>Taxpayer</u>	<u>Business</u>	<u>Valuation</u>	Percent of Total (2004 pay 2005) <u>Assessed Value</u>
Mittal Steel (1)	Manufacturing	\$219,755,740	17.26%
City of East Chicago (2)	Casino Gaming	77,432,220	6.08%
ISG Indiana Harbor (1)	Manufacturing	59,422,630	4.67%
Praxair	Manufacturing	56,359,230	4.43%
BP Products	Petroleum refining	53,351,690	4.19%
Amoco Oil Co.	Petroleum refining	23,836,400	1.87%
Safety Kleen Corporation	Chemical Refining	20,183,000	1.59%
NIPSCO	Utility	20,016,470	1.57%
Showboat Marina Casino	Casino gaming	19,962,230	1.57%
PCI Associates	Manufacturing	17,201,580	1.35%
US Gypsum	Manufacturing	15,201,713	1.19%

(1) In 2005, Mittal Steel acquired the Indiana Harbor steel facilities from ISG Indiana Harbor, Inc.

(2) Leased to Harrah's

Source: Lake County Auditor's Office

The following table represents the tax rates of the City per \$100 of net assessed value as obtained from the Lake County Auditor's Office.

Tax Rates

	2004 pay <u>2005</u>	2003 pay <u>2004</u>	2002 pay <u>2003**</u>	2001 pay <u>2002*</u>	2000 pay <u>2001</u>
General	\$2.5418	\$2.6522	\$2.3163	\$3.5395	\$4.5383
Lease Rental Payment	0.1845	0.1969	0.1598	0.2905	0.2445
Fire Pension	0.1172	0.0877	0.0256	0.1132	0.3221
Police Pension	0.1337	0.1258	0.0098	0.1302	0.4101
Motor Vehicle Highway	0.0042	0.0188	0.0069	0.0526	0.1852
Park & Recreation	0.2058	0.1884	0.1552	0.1900	0.4068
Park Bond	0.0467	0.0529	0.0426	0.0733	0.3652
Cumulative Capital Development	0.0248	0.0248	0.0230	0.0370	0.1110
Redevelopment Bond	-	-	-	-	0.2312
Transportation	<u>0.0649</u>	<u>0.0463</u>	<u>0.0392</u>	<u>0.0826</u>	<u>0.0879</u>
Total Corporation	<u>\$3.3236</u>	<u>\$3.3938</u>	<u>\$2.7784</u>	<u>\$4.5089</u>	<u>\$6.9023</u>
Sanitary/Solid Waste District	\$1.0625	\$1.0822	\$0.8905	\$1.4406	\$2.4635
Library District	0.3786	0.3721	0.3062	0.5012	0.8316
School City	2.2063	2.1258	1.8680	3.4004	8.3125
North Township	0.0704	0.0756	0.0726	0.1370	0.3362
Lake County	1.0875	1.1169	1.1676	1.8831	5.0551
State of Indiana	<u>0.0024</u>	<u>0.0024</u>	<u>0.0033</u>	<u>0.0033</u>	<u>0.0100</u>
Total Overlapping	<u>\$4.8077</u>	<u>\$4.7750</u>	<u>\$4.3082</u>	<u>\$7.3656</u>	<u>\$17.0089</u>
Total Tax Rate	<u>\$8.1313</u>	<u>\$8.1688</u>	<u>\$7.0866</u>	<u>\$11.8745</u>	<u>\$23.9112</u>

* Effective with the 2001 pay 2002 property tax collection cycle, the definition of assessed value was modified from "one-third of True Tax Value" to "equals True Tax Value". Accordingly, property tax rates were reduced by approximately one-third to reflect this change in the measurement of the assessed valuation.

** Reflects the results of the general reassessment of all taxable property (real and personal) as of March 1, 2002 for the 2002 pay 2003 property tax collection cycle.

FINANCIAL INFORMATION

The City annually prepares a City and Town Financial Report ("CTAR") and audited financial statements for the City are prepared annually by the State Board of Accounts. The audited financial report and the CAFR for the year ended December 31, 2004 is available upon request from the City. Requests should be directed the Charles Pacurar, City Controller, 4525 Indianapolis Blvd., East Chicago, IN 46312.

City of East Chicago Employee Pensions

The City contributes to the Public Employees' Retirement Fund on behalf of its employees as well as provides post-employment medical health care benefits, in accordance with an agreement between the City and the police and fireman's unions. For a description of the City's pension plans and post-employment medical benefits, see the City's Comprehensive Annual Financial Report which is available upon request from the City.

Certain Riverboat Gaming Related Matters

On January 8, 1996, the Indiana Gaming Commission (the "Commission") issued an order for a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in East Chicago, Indiana. On March 20, 1996, pursuant to the City's Resolution 1996-20, the Certificate of Suitability was transferred by the Commission to Showboat Marina Casino Partnership ("Showboat"). The initial Certificate of Suitability was valid for a period of 180 days. The Commission issued extensions of the Certificate of Suitability to Showboat on June 3, 1996, June 21, 1996 and December 20, 1996. The last extension expired June 2, 1997. Showboat was issued a Riverboat Owner's License for the period April 15, 1997 to April 14, 2002. Following the initial five-year license period, Riverboat Owner's Licenses are renewed annually pursuant to statute.

Effective April 1, 1999, Showboat's interest in the riverboat gambling operation in East Chicago was acquired by Harrah's Entertainment, Inc ("Harrah's"). Harrah's also succeeded to Showboat's agreements with the City described below. On April 21, 2005, the Commission approved the transfer of ownership and license from Harrah's to RIH Acquisitions IN, LLC ("Resorts"). The latest annual license renewal was effective 4/15/05.

Pursuant to the enabling gaming legislation, the City receives wagering taxes of 5% of defined gaming gross receipts and a \$1 per head admissions tax, subject to a statutory cap of \$19,531,968 (consisting of \$13,549,654 for the wagering taxes and \$5,982,314 for the admission tax). However, beginning in State fiscal year 2005 (July 2004 to June 2005), the admission tax cap was reduced by \$1,077,742 as a result of Public Law 246-2005.

In connection with the Certificate of Suitability, the City established a Showboat Expendable Trust fund to account for certain additional fixed economic incentives and for the monthly payment of 1% of defined gaming gross receipts from Showboat. Showboat has also provided economic support for other non-city administered East Chicago related activities.

The City recorded the following in wagering tax and admissions tax (Gaming Special Revenue Fund), and 1% distributions (Showboat Expendable Trust Fund), respectively, and as further described below:

<u>Receipts</u> (1) (2) (3)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Gaming Special Revenue Fund	\$18,848,978	\$18,778,887	\$21,775,090	\$20,258,612	\$15,181,311
Showboat Expendable Trust Fund	<u>2,618,615</u>	<u>2,793,552</u>	<u>2,792,787</u>	<u>3,387,626</u>	<u>2,901,856</u>
Total	<u>\$21,467,593</u>	<u>\$21,572,439</u>	<u>\$24,567,877</u>	<u>\$23,646,238</u>	<u>\$18,083,167</u>

- (1) Receipts above are reported on a calendar year basis consistent with the City's financial reporting on its CTAR. The statutory cap for wagering tax and admissions tax (recorded in the Gaming Special Revenue Fund Receipts) mentioned previously is based upon the State's fiscal year which runs from July to June.
- (2) Gaming Special Revenue Fund receipts for 2004 include an over-distribution by the State Auditor of \$1,890,938 which was refunded by the City in 2004.
- (3) The admissions tax final distribution received in 2005 was reduced by \$1,077,742 as a result of Public Law 246-2005. The City believes 2005 wagering tax and admissions tax are lower than prior years due to the change of ownership in the Riverboat and a change in the methodology for assessing admission tax.

The above amounts do not include any direct payments by Showboat or reimbursements to the City for expenditures related to the \$16,371,890 of fixed incentives to the City described in the Certificate of Suitability issued by the Indiana Gaming Commission.

APPENDIX C
FORM OF BOND COUNSEL OPINION

May 23, 2006

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank
Special Program Refunding Bonds
(East Chicago Municipal Building Corporation Project), Series 2006 A

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the “Issuer”) in connection with the issuance by the Issuer of its Special Program Refunding Bonds (East Chicago Municipal Building Corporation Project), Series 2006 A, dated May 23, 2006 (the “Bonds”), in the aggregate principal amount of \$26,485,000, pursuant to Indiana Code 5-1.5, as amended, and the Trust Indenture, dated as of May 1, 2006 (the “Indenture”), between the Issuer and Mercantile National Bank of Indiana, as trustee (the “Trustee”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer contained in the Indenture, the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2006 A Qualified Entity (as defined in the Indenture) and others, including, without limitation, certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of the Series 2006 A Qualified Entity, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Baker & Daniels LLP, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the reports of London Witte Group, LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

For purposes of this opinion, we have assumed, without making any factual, legal or other inquiry or investigation, and without expressing any opinion or stating any conclusion with respect thereto, that the interest on the Special Program Bonds, Series 2000 A, dated January 27, 2000, issued by the Issuer, and the entire outstanding principal amount of which is to be defeased with, among other funds, a portion of the proceeds of the Bonds, is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the “Code”).

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under the laws of the State of Indiana (the "State"), with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Code, interest on the Bonds is excludable from gross income for federal income tax purposes. The opinion set forth in this paragraph is subject to the condition that each of the Issuer and the Series 2006 A Qualified Entity comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. Each of the Issuer and the Series 2006 A Qualified Entity has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

6. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated May 9, 2006, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by

Indiana Bond Bank

May 23, 2006

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public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture. Capitalized terms in this summary not defined in the Official Statement shall have the meanings set forth in the Indenture.

Definitions

“Accounts” means the accounts created pursuant to the Indenture.

“Act” means the provisions of Indiana Code 5-1.5, as from time to time amended.

“Authorized Officer” means the Chairman, the Vice Chairman or the Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended from time to time.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).

“Bond Bank” means the Indiana Bond Bank, a body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

“Bondholder” or “holder of Bonds” or “owner of Bonds” or any similar term means the registered owner of any Bond.

“Bond Issuance Expense Account” means the account by that name created pursuant to the Indenture.

“Bonds” means the Series 2006 A Bonds and any Refunding Bonds.

“Building Corporation” means the East Chicago Municipal Building Corporation.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

“City” means the City of East Chicago, Indiana.

“Clearing Agency” means initially The Depository Trust Company, and its successors and assigns, including any surviving, resulting or transferee corporation, or any successor

corporation that may be appointed in a manner consistent with the Indenture and shall include any direct or indirect participants of The Depository Trust Company.

“Code” means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2006 A Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter’s discounts, legal fees and charges, professional consultants’ fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of the Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

“Credit Facility” means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

“Credit Provider” means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility shall be either:

(a) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(b) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

“Debt Service Reserve Fund” means the fund by that name created pursuant to the Indenture.

“Debt Service Reserve Fund Credit Facility” means any Credit Facility issued or provided by a Credit Provider, (a) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (b) which shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

“Debt Service Reserve Fund Reimbursement Obligation” shall mean any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

“Default” means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

“Disclosure Agreement” means the Continuing Disclosure Agreement from the City to each Bondholder and Beneficial Owner, which contains certain promises, including a promise to provide certain continuing disclosure.

“Escrow Agent” means Mercantile National Bank of Indiana.

“Escrow Agreement” means the Escrow Agreement, dated as of May 1, 2006, between the Bond Bank and the Escrow Agent providing for the defeasance of the Refunded Bonds.

“Escrow Account” means the Escrow Account created under the Escrow Agreement.

“Event of Default” means any occurrence of an event specified in the Indenture.

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Series 2006 A Qualified Entity.

“Fiscal Year” means the twelve-month period from July 1 through the following June 30.

“Funds” means the funds created pursuant to the Indenture (other than the Rebate Fund).

“General Account” means the account by that name created pursuant to the Indenture.

“General Fund” means the fund by that name created pursuant to the Indenture.

“Governmental Obligations” means: (a) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”); (b) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (c) the interest component of Resolution Funding Corp. strips, which have been stripped by request to the Federal Reserve Bank of New York in book-entry form; (d) pre-refunded municipal bonds rated “AAA” by Moody’s and “Aaa” by S&P; provided, however, if the issue is rated only by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or AAA rated pre-refunded municipals; and (e) obligations issued by the following agencies, which are backed by the full faith and credit of the United States: (1) United States Export-Import Bank (Eximbank) direct obligations or fully guaranteed certificates of beneficial ownership; (2) Farmers Home Administration (FmHA) certificates of beneficial ownership; (3) Federal Financing Bank; (4) General Services Administration participation certificates; (5) United States Maritime Administration guaranteed Title IX financing; and (6) United States Department of Housing and Urban Development (HUD) project notes, local authority bonds, new communities

debentures - United States government guaranteed debentures, and United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

“Indenture” means the Trust Indenture, and all supplements and amendments hereto entered into pursuant thereto.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture.

“Investment Securities” means any of the following:

- (a) Governmental Obligations;
- (b) Federal Housing Administration debentures;
- (c) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - (1) Federal Home Loan Mortgage Corporation (FHLMC);
 - (2) participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) - senior debt obligations;
 - (3) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;
 - (4) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;
 - (5) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);
 - (6) Student Loan Marketing Association (SLMA) senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);
 - (7) Financing Corporation (FICO) debt obligations; and
 - (8) Resolution Funding Corporation (REFCORP) debt obligations;
- (d) unsecured certificates of deposit, time deposits and bankers’ acceptances (having maturities of not more than 30 days) of any bank, the short-term obligations of which are rated “A-1” or better by S&P;

(e) deposits, the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million;

(f) commercial paper (having original maturities of not more than 270 days) rated “A-1+” by S&P and “Prime-1” by Moody’s;

(g) money market funds rated “AAm” or “AAm-G” by S&P, or better, which funds may be funds of the Trustee or any of its affiliates;

(h) “State Obligations,” which means:

(1) direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state, the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated;

(2) direct general short-term obligations of any state agency or subdivision or agency thereof described in paragraph (1) above and rated “A-1+” by S&P and “MIG-1” by Moody’s; and

(3) special revenue bonds (as defined in the Bankruptcy Code) of any state, state agency or subdivision described in paragraph (1) above and rated “AA” or better by S&P and “Aa” or better by Moody’s;

(i) pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

(1) (A) the municipal obligations are not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(2) the municipal obligations are secured by cash or United States Treasury Obligations, which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(3) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(4) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(5) no substitution of a United States Treasury Obligation shall be permitted, except with another United States Treasury Obligation and upon delivery of a new Verification; and

(6) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(j) repurchase agreements with: (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by S&P and Moody’s and acceptable to the Series 2006 A Bond Insurer, provided that:

(1) the market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);

(2) the Trustee or a third party acting solely as agent therefor or for the Bond Bank (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(3) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(4) all other requirements of S&P in respect of repurchase agreements shall be met; and

(5) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Bond Bank or the Trustee (who shall give such direction if so directed by the Series 2006 A Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Bond Bank or the Trustee;

notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in paragraph (1) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by S&P and Moody’s, respectively;

(k) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company), the long-term debt of which, or, in the case of a guaranteed corporation, the long-term debt, or, in the case of a monoline financial guaranty

insurance company, the claims paying ability, of the guarantor, is rated at least “AA” by S&P and “Aa” by Moody’s; provided that, by the terms of the investment agreement:

(1) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Series 2006 A Bonds;

(2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice, and the Bond Bank and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(3) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(4) the Bond Bank or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Bond Bank and the Series 2006 A Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Bank and the Series 2006 A Bond Insurer;

(5) the investment agreement shall provide that if during its term:

(A) the provider’s rating by either S&P or Moody’s falls below “AA-” or “Aa3,” respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either: (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider’s books) to the Bond Bank, the Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) collateral free and clear of any third-party liens or claims, the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(B) the provider’s rating by either S&P or Moody’s is withdrawn or suspended or falls below “A-” or “A3,” respectively, the provider must, at the direction of the Bond Bank or the Trustee (who shall give such direction if so directed by the Series 2006 A Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Bond Bank or the Trustee;

(6) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all

proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(7) the investment agreement must provide that if during its term:

(A) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Bond Bank or the Trustee (who shall give such direction if so directed by the Series 2006 A Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Bond Bank or the Trustee, as appropriate; and

(B) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Bond Bank or the Trustee, as appropriate; and

(l) the Investment Agreement, as defined in the Indenture.

"Moody's" means Moody's Investors Service or any successor thereto.

"Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of states and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed paid under the Indenture; and

(c) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

"Principal Payment Date" means the maturity date or the mandatory sinking fund redemption date of any Bond.

"Program" means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

“Program Expenses” means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

“Purchase Agreement” means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

“Qualified Entity” means an entity defined in Indiana Code 5-1.5-1-8, as amended from time to time, including the Series 2006 A Qualified Entity.

“Qualified Obligation” means a Security (as that term is defined in the Act), including the Series 2006 A Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for the principal of and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Rebate Fund” means the fund by that name created pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth day of the calendar month next preceding such Interest Payment Date.

“Redemption Account” means the account by that name created pursuant to the Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

“Refunded Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2000 A, dated January 27, 2000, originally issued in the aggregate principal amount of \$31,495,000 and currently outstanding in the aggregate principal amount of \$28,490,000.

“Refunding Bonds” means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

“Reserve Requirement” means an amount equal to the maximum annual principal and interest requirements on the Bonds, which at the time of issuance of the Series 2006 A Bonds means an amount equal to \$2,186,637.50, and thereafter, if less than such amount, shall be the maximum annual principal and interest requirements on Outstanding Bonds in the then current or any succeeding Fiscal Year.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture, including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or a Supplemental Indenture.

“Series 2006 A Bond Insurance Policy” means the insurance policy issued by the Series 2006 A Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the Series 2006 A Bonds when due.

“Series 2006 A Bond Insurer” means Financial Security Assurance Inc., or any successor thereto or assignee thereof.

“Series 2006 A Bonds” means the Indiana Bond Bank Special Program Refunding Bonds (East Chicago Municipal Building Corporation Project), Series 2006 A, issued pursuant to the Indenture.

“Series 2006 A Debt Service Reserve Fund Credit Facility” means the Debt Service Reserve Fund Credit Facility issued by the Series 2006 A Bond Insurer.

“Series 2006 A Qualified Entity” means the Building Corporation.

“Series 2006 A Qualified Obligations” means the First Mortgage Refunding Bonds, Series 2006, dated May 23, 2006, and issued by the Series 2006 A Qualified Entity.

“State” means the State of Indiana.

“State’s Disclosure Agreement” means the Continuing Disclosure Undertaking Agreement, among the Bond Bank, the State and Mercantile National Bank of Indiana, as counterparty, which contains certain promises to the Bondholders and the Beneficial Owners, including a promise by the Bond Bank and the State to provide certain continuing disclosure.

“Supplemental Indenture” means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

“Trustee” means Mercantile National Bank of Indiana or any successor thereto under the Indenture.

“Trust Estate” means the property, rights and amounts pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee

and the owners of an aggregate of at least five percent in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Preservation of Tax Exemption for the Series 2006 A Bonds

In order to assure the continuing excludability of the interest on the Series 2006 A Bonds from the gross income of the owners thereof for federal income tax purposes, the Bond Bank covenants and agrees that it will not take any action or fail to take any action, with respect to the Series 2006 A Bonds, that would result in the loss of the excludability of the interest on any of the Series 2006 A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such excludability and it will not make any investment or do any other act or thing during the period that the Series 2006 A Bonds are Outstanding which would cause any of the Series 2006 A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the Series 2006 A Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the Series 2006 A Bonds. It will not be an Event of Default under the Indenture if the interest on the Series 2006 A Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of the Series 2006 A Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

Performance of Covenants by the Bond Bank

The Bond Bank covenants and agrees that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Bond executed, authenticated and delivered under the Indenture and in all of its proceedings pertaining thereto. The Bond Bank covenants and agrees: that it is duly authorized under the constitution and laws of the State, including particularly the Act, to issue the Bonds, to execute the Indenture and to pledge the Revenues and all other property pledged by the Indenture in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable limited obligations of the Bond Bank according to the terms thereof and of the Indenture.

Instruments of Further Assurance

The Bond Bank covenants and agrees that the Trustee may defend its rights to the payment of the Revenues for the benefit of the owners of the Bonds against the claims and demands of all persons whomsoever. The Bond Bank covenants and agrees that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental to the Indenture and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming unto the Trustee all and singular the rights assigned by the Indenture and the amounts and other property pledged by the Indenture to the payment of the principal of and interest on the Bonds.

Covenants Concerning the Program

In order to provide for the payment of the principal of, premium, if any, and interest on the Bonds and Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals, (a) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (b) diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Qualified Obligations and to enforce all terms, covenants and conditions of the Qualified Obligations. Whenever necessary in order to provide for the payment of the Bonds, the Bond Bank will commence appropriate remedies with respect to any Qualified Obligation which is in default.

Covenants with Respect to Qualified Obligations

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in the Qualified Obligations (other than one for which consent by the Bond Bank is not required), unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds, together with any Program Expenses, in each such Fiscal Year.

(b) Only to the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of a Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, as amended, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced,

Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service due on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies shall be within the sole discretion of the Trustee.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale to be transferred from any Fund or Account, will at least equal debt service due on all Outstanding Bonds, together with any Program Expenses, in each such Fiscal Year.

Certification Covenants

In the event that a deficiency in the Debt Service Reserve Fund is projected during the next succeeding Fiscal Year, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected as described in the preceding sentence and regardless of the time at which such deficiency occurs, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency in the Debt Service Reserve Fund to the State General Assembly.

Cash Flow Certificates

(a) At any time that the provisions of the Indenture shall require that a Cash Flow Certificate be prepared, such certificate shall set forth:

(1) the Revenues expected to be received on all Qualified Obligations purchased with proceeds of the Bonds or with Revenues expected to be available for the purpose of financing the purchase of additional Qualified Obligations;

(2) all other Revenues, including the interest to be earned and other income to be derived from the investment of the Funds and Accounts and the rate or yields used in estimating such amounts;

(3) all moneys expected to be in the Funds and Accounts (with respect to the Debt Service Reserve Fund, only to the extent as described in paragraph (4) below);

(4) the amount, if any, expected to be withdrawn from the Debt Service Reserve Fund, but only if the amount on deposit in the Debt Service Reserve Fund is expected to at least equal the Reserve Requirement immediately after such withdrawal and such withdrawal is permitted by the Indenture;

(5) the debt service due on all Bonds expected to be Outstanding during each Fiscal Year; and

(6) the amount, if any, of Program Expenses expected to be paid from the Revenues.

(b) In making any Cash Flow Certificate, the accountant or firm of accountants may contemplate the payment or redemption of Bonds for the payment or redemption of which amounts have been set aside in the Redemption Account. The issuance of Bonds, the making of transfers from one Fund to another and the deposit of amounts in any Fund from any other source may be contemplated in a Cash Flow Certificate only to the extent that such issuance, deposit or transfer has occurred prior to or will occur substantially simultaneously with the delivery of such Cash Flow Certificate. The accountant or firm of accountants shall also supply supporting schedules appropriate to show the sources and applications of funds used, identifying particularly amounts to be transferred between Funds, amounts to be applied to the redemption or payment of Bonds and amounts to be used to provide for Costs of Issuance, the debt service reserve and capitalized interest, if any, for the respective Series. Such amounts shall be the amounts as of the last day of the month preceding the month in which the Cash Flow Certificate is delivered, but shall be adjusted to give effect to scheduled payments of principal of and interest on Qualified Obligations, actual payments or proceeds with respect to Investment Securities and actual expenditures of cash expected by the Bond Bank through the end of the then current month.

Limitation on Additional Bonds

The only additional Bonds that may be issued under the Indenture are Refunding Bonds issued solely to refund all or any part of the Bonds Outstanding.

The Indenture creates a continuing pledge and lien to secure the full and final payment of the principal of and interest on all Bonds and authorizes the issuance of one or more series of Bonds under separate Supplemental Indentures. The Indenture establishes the requirements for each Supplemental Indenture and provides that no Series of Bonds will be issued under a Supplemental Indenture, unless certain conditions are met, including the receipt by the Trustee of a Cash Flow Certificate to the effect that, immediately after the issuance of such Bonds, Revenues in each Fiscal Year will at least equal the debt service on all Bonds in each such Fiscal Year, including such Bonds. Such certificate will not be required in the case of Refunding Bonds if the debt service in each Fiscal Year on all Bonds Outstanding after the issuance of such Refunding Bonds will be equal to or less than such debt service for each Fiscal Year on all Bonds Outstanding before the issuance of the Refunding Bonds.

Budgets

The Bond Bank will adopt and file with the Trustee, upon the written request of the Trustee, and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 1 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 1, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the principal and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (1) has been made or has been caused to be made in accordance with its terms, or (2) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (A) moneys sufficient to make such payment, (B) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (C) a combination of such moneys and Governmental Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an “Event of Default” under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;

(b) The Bond Bank defaults in the performance or observance of any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;

(d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 60 days after the end of the Fiscal Year during which a deficiency occurs; or

(i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence of an Event of Default, the Trustee will notify the Owners of Outstanding Bonds of such Event of Default and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including the enforcement of any rights of the Bond Bank or the Trustee under the Qualified Obligations;

(b) The Trustee may by action at law or suit in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds and may take such action with respect to the Qualified Obligations as the Trustee deems necessary or appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act. Notwithstanding the foregoing, for so long as the Policy remains in full force and effect, there will not be any acceleration of principal of, or interest on, the Series 2006 A Bonds unless the Trustee receives the express written consent of the Series 2006 A Bond Insurer prior to taking such action.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more of the aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of

the rights, remedies and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture; provided that such direction shall not be otherwise than in accordance with the provisions of law and the Indenture.

Waivers of Events of Default

The Trustee, with the consent of the Series 2006 A Bond Insurer (so long as the Series 2006 A Bond Insurance Policy remains in full force and effect), may, at its discretion, waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) of the aggregate principal amount of all Bonds then Outstanding in respect of which an Event of Default in the payment of principal or interest exists, or (b) a majority in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (a) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (b) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture, unless prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued, abandoned or determined adversely, then the Bond Bank, the Trustee and the Bondholders will be restored to their former respective positions and rights under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) a Default has occurred, (b) such Default shall have become an Event of Default and the owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (c) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (d) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the

Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

Series 2006 A Bond Insurer as the Sole Bondholder

For so long as the Series 2006 A Bond Insurance Policy remains in full force and effect, the Series 2006 A Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole holder or owner of the Series 2006 A Bonds for the purpose of exercising all rights and privileges available to the holders of the Series 2006 A Bonds upon the occurrence of an Event of Default.

Supplemental Indentures

The Bond Bank and the Trustee may, without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;
- (c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- (e) To evidence the appointment of a separate or co-trustee or the succession of a new Trustee or the succession of a new registrar and/or paying agent;
- (f) In connection with the issuance of Refunding Bonds;
- (g) To provide for the refunding of all or a portion of the Bonds; and
- (h) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax laws.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture, but only with the express written consent of the Series 2006 A Bond Insurer for so long as the Series 2006 A Bond Insurance Policy remains in full force and effect; provided, however, no Supplemental Indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture and the Series 2006 A Bond Insurer for so long as the Series 2006 A Bond Insurance Policy remains in full force and effect: (a) an extension of a Principal Payment Date, an Interest Payment Date or a redemption date for any Bond issued under the Indenture; (b) a reduction in the principal amount of any Bond or change in the rate of interest or redemption premium; (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds; (d) a reduction in the aggregate principal amount of the Bonds, the owners of which are required to consent to such Supplemental Indenture; (e) the creation of any lien securing any Bonds other than a lien ratably securing all of the Bonds at any time Outstanding; (f) a reduction in the Reserve Requirement; or (g) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee, which shall also require the written consent of the Trustee.

Additional Provisions Regarding the Series 2006 A Bond Insurer

For so long as the Series 2006 A Bond Insurance Policy remains in full force and effect, the following provisions described below shall govern, notwithstanding anything to the contrary set forth in the Indenture:

(a) The prior written consent of the Series 2006 A Bond Insurer shall be a condition precedent to the deposit of any Debt Service Reserve Fund Credit Facility other than the Series 2006 A Debt Service Reserve Fund Credit Facility. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Debt Service Reserve Fund shall be applied solely to the payment of debt service on the Series 2006 A Bonds.

(b) The Series 2006 A Bond Insurer will be deemed by the Trustee and the Bond Bank as the sole holder of the Series 2006 A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2006 A Bonds are entitled to take pursuant to those provisions of the Indenture pertaining to defaults and remedies and the duties and obligations of the Trustee, if any. The Trustee shall take no action except with the consent, or at the direction, of the Series 2006 A Bond Insurer. The maturity of Bonds shall not be accelerated without the consent of the Series 2006 A Bond Insurer.

(c) No grace period for a covenant default under the Indenture will exceed 30 days, nor be extended for more than 60 days, without the prior express written consent of the Series 2006 A Bond Insurer. No grace period shall be permitted for payment defaults.

(d) The Series 2006 A Bond Insurer will be included as a third party beneficiary of the covenants in the Indenture made by the Bond Bank for the benefit of the owners of the Series 2006 A Bonds.

(e) The rights granted to the Series 2006 A Bond Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2006 A Bond Insurer in consideration of its issuance of the Series 2006 A Bond Insurance Policy. Any exercise by the Series 2006 A Bond Insurer of such rights is merely an exercise of the Series 2006 A Bond Insurer's contractual rights and should not be construed or deemed to be taken for the benefit or on behalf of the owners of the Series 2006 A Bonds, nor does such action evidence any position of the Series 2006 A Bond Insurer, positive or negative, as to whether the consent of the owners of the Series 2006 A Bonds is required in addition to the consent of the Series 2006 A Bond Insurer.

(f) To the extent the Series 2006 A Bonds are paid by the Series 2006 A Bond Insurer under the Series 2006 A Bond Insurance Policy, such Series 2006 A Bonds shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Bond Bank in accordance with the Indenture.

(g) The Indenture will not be discharged until all amounts due or to become due to the Series 2006 A Bond Insurer have been paid in full or duly provided for.

(h) The Series 2006 A Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2006 A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2006 A Bond Insurance Policy.

(i) The Series 2006 A Bond Insurer will be provided with the following information:

(1) Annual audited financial statements of the Bond Bank, if any, as soon as practicable after the end of each Fiscal Year;

(2) The Bond Bank's annual budget within 30 days after its adoption;

(3) Notice of any draw upon the Debt Service Reserve Fund within two (2) business days after knowledge thereof other than (A) withdrawals of amounts in excess of the Reserve Requirement, or (B) withdrawals in connection with a refunding of the Bonds;

(4) Notice of the occurrence of any default known to the Trustee within five (5) business days after knowledge thereof by the Trustee, including any default with respect to a Series 2006 A Qualified Obligation;

(5) Prior notice of any advance refunding or redemption of any of the Series 2006 A Bonds, including the principal amount, maturities and CUSIP numbers of such Series 2006 A Bonds;

(6) Notice of any resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(7) Notice of the commencement of any proceeding by or against the Bond Bank or the Series 2006 A Qualified Entity (if known by the Bond Bank) commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);

(8) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of or interest on the Series 2006 A Bonds;

(9) A full original transcript of all proceedings related to the execution of any amendment or supplement to the Indenture or the Series 2006 A Qualified Obligations; and

(10) All reports, notices and correspondence delivered under the Indenture or the Series 2006 A Qualified Obligations.

(j) Each of the Bond Bank and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to perfect or otherwise preserve the priority of the pledge of the Trust Estate under State law.

(k) (1) The Bond Bank shall pay or reimburse the Series 2006 A Bond Insurer any and all charges, fees, costs and expenses which the Series 2006 A Bond Insurer may reasonably pay or incur in connection with: (A) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any Series 2006 A Qualified Obligation; (B) the pursuit of any remedies under the Indenture or any Series 2006 A Qualified Obligation or otherwise afforded by law or equity; (C) any amendment, waiver or other action with respect to, or related to, the Indenture or any Series 2006 A Qualified Obligation whether or not executed or completed; (D) the violation by the Bond Bank or the Series 2006 A Qualified Entity of any law, rule or regulation, or any judgment, order or decree applicable to it; or (E) any litigation or other dispute in connection with the Indenture or any Series 2006 A Qualified Obligation or the transactions contemplated thereby, other than amounts resulting from the failure of the Series 2006 A Bond Insurer to honor its obligations under the Series 2006 A Bond Insurance Policy. The Series 2006 A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any Series 2006 A Qualified Obligation.

(2) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Bond Bank or rebate only after the payment of debt service due and past due on the Series 2006 A Bonds, together with replenishment of the Debt Service Reserve Fund.


(3) The Series 2006 A Bond Insurer shall be entitled to pay principal of or interest on the Series 2006 A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Bond Bank (as such terms are defined in the Series 2006 A Bond

Insurance Policy) and any amounts due on the Series 2006 A Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2006 A Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Series 2006 A Bond Insurance Policy) or a claim upon the Series 2006 A Bond Insurance Policy.

(l) To accomplish defeasance, the Bond Bank shall cause to be delivered (1) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Series 2006 A Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Series 2006 A Bonds in full on the maturity or redemption date ("Verification"), (2) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Series 2006 A Bond Insurer), (3) an opinion of nationally recognized bond counsel to the effect that the Series 2006 A Bonds are no longer "Outstanding" under the Indenture and (4) a certificate of discharge of the Trustee with respect to the Series 2006 A Bonds. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Bond Bank, the Trustee and the Series 2006 A Bond Insurer. The Series 2006 A Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

	FINANCIAL SECURITY ASSURANCE®	MUNICIPAL BOND INSURANCE POLICY
ISSUER:		Policy No.: -N
BONDS:		Effective Date:
		Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer


A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

APPENDIX F

SPECIMEN DEBT SERVICE RESERVE FUND CREDIT FACILITY

	FINANCIAL SECURITY ASSURANCE®	MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY
ISSUER:		Policy No.:
BONDS:		Effective Date:
		Premium: \$
<p>FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.</p> <p>Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the [Bond Document or Insurance Agreement]. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.</p> <p>The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.</p> <p>Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.</p> <p>Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the</p>		

date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of and the date the

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 501B NY (8/96)

